



UKRPRODUCT GROUP

UKRPRODUCT GROUP
Annual Report
2011



UKRPRODUCT GROUP

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UKRPRODUCT GROUP



CHAIRMAN AND CHIEF EXECUTIVE STATEMENT

Market environment:

Over the year 2011 Ukrproduct Group Limited (“UPG” or “Ukrproduct” which is referred to as the company and together with its subsidiaries as “the Group”) continued to operate in a challenging business environment. Inflation amounted to 9.2% (IMF estimates). The real unemployment rate in Ukraine according to the International Labor Organization reached an average of 10%, further constraining consumer purchasing power.

The introduction of the new Tax Code effective from the 1st of April 2011 imposed much higher effective tax charges. The dairy sector was also affected by changes to the milk subsidy regime. The subsidies were not paid to the milk suppliers, leading to a significant increase in raw milk prices for all processors.

Overview:

Overall, during the year, Ukrproduct succeeded in building growth in sales and gross profit by focusing on branded/own label products, distribution services and exports. Despite the challenging background Ukrproduct increased sales in both volume and monetary terms by 6% and 12% respectively.

However gross margins were pressured by a hike in energy prices and reduced by an increase in raw milk prices. In addition to inflation caused by the new government VAT subsidy regime, prices surged earlier in the autumn season than usual, brought about by a shortage and the subsequent competition for supply. At present milk production is gradually reducing. At the same time, the competitive market place made it very difficult to fully recover such high cost inflation by increasing prices.

Branded products:

2011 brought about changes in the structure of the dairy market in Ukraine driven both by the consumer seeking more value for

money and producers keen on finding the most advantageous production models. Demand fell and as result market capacity across all dairy categories in 2011 has contracted. Producers responded either by reducing the prices and quality or by reducing the package weight whilst maintaining the quality. In this difficult situation the producers with a permit to export to Russia preferred to pursue export opportunities.

Nevertheless Ukrproduct branded products showed a good performance with revenue increasing by 9% and gross profit increasing by 4%. Over the year Ukrproduct Group further strengthened its leading position in the packaged butter market, increasing its market share to 23% (compared to 22% in 2010) and recovering its leadership position in processed cheese, achieving market share of 16.3% (compared to 15.5% in 2010). The Group also improved its expertise and market position in the spreads segment. In the hard cheese segment, the Group focused on increasing profitability and improving its position step by step given the maturity of the hard cheese market.

Skimmed Milk Powder (SMP):

SMP remained subdued with the world trading environment and high input costs negating profit making opportunities, in contrast with last year. In the Ukraine this forced producers of SMP to decrease output volumes by 20%.

SMP being the by-product of profitable butter production, the Group could not fully avoid the adverse impact of lack of profitability in this segment but addressed this challenge by minimizing SMP output to the volumes necessary to satisfy only the existing contracts with local multinational companies whilst seeking other opportunities for protein utilization.

Distribution Services:

Revenue and gross profit from distribution services improved by 155% and 125% respectively in line with the new focus based on the utilization of Ukrproduct’s pan-Ukrainian distribution network of both vehicles and warehouses. The most significant progress



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was made in the distribution of Kvass drink which showed an increase in sales in monetary terms of 87% largely supported by marketing efforts allowing more penetration into retail chains.

Export:

Export sales of branded products have also benefitted from improved focus and showed a similar story of improved sales and gross profit. In 2011 branded export sales grew by over 30.8% in tons and by more than 28% in monetary terms as a result of a wider range of exported products and better presence in the regions which are currently covered.

Cost efficiency:

The challenging market situation accentuated the need for cost reduction. A further cost reduction program has been implemented in Q4'2011 including production, management and personnel optimizations. The benefits of this program have become evident since January 2012.

Also Ukrproduct launched the reconstruction of its flagship plant in Starokostiantyniv under a loan facility provided by EBRD in March 2011. The reconstruction is due for completion in 2012 and will substantially improve energy efficiency and productivity at this production facility, driving down unit costs and improving profit margins. Cost savings are expected to accrue from mid 2012.

Kvass acquisition:

It was agreed in December 2011 that Ukrproduct Group would acquire LLC "Zhyvyi Kvass" a producer of "Arsenievsky" branded kvass and the transaction is now finalized. From September 2010 until the date of acquisition, Ukrproduct has been the exclusive distributor of "Arsenievsky" branded kvass, a traditional fermented beverage made from rye, black bread or barley. This has proved to be successful and encouraging growth prospects are foreseen.

The Group therefore considers this to be an important strategic

acquisition, integrating into Ukrproduct the kvass operations, production facilities, trademark and marketing which will achieve greater efficiency and ensure security of supply and branding.

Tax:

As of April 1, 2011 the government introduced a stringent Tax Code inducing significantly higher tax charges. Improved planning in the second half has mitigated to some extent the impact of the introduction of the Code. The negative effect on business remains substantial. However starting from January 2012, amendments to the new Tax Code came into effect which together with management efforts will result in a reduction of the effective tax rate.

Outlook and strategy:

For the reasons stated, 2011 proved to be a very challenging year for Ukrproduct and all processors. Although in 2012 some challenges will persist driven by the economy, overall 2012 is expected to show a recovery. Indeed the Group has started the new year better with both sales and margins showing the growth over 2011. Margins improved via stabilization of milk prices at a lower level not least due to a partial return to the old milk subsidy payment scheme and helped by the recent cost improvement program. In respect of cost reduction, the Group has the results of the EBRD financed program to look forward to.

Going forward our strategy will remain to grow with a clear focus on branded products, distribution services, export and SMP. Selling prices are expected to remain under pressure so margin improvement will be sought via cost efficiency.

We plan to further develop our branded products by expanding our product portfolio including the launch of new product categories and new types of packaging. We will also continue to support our existing products through marketing activity and sales force efforts for better penetration.

We anticipate that the global market for SMP will remain



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depressed and thus the Group will continue the strategy adopted in 2011 aimed at limiting output to the volumes required by local multinational companies and at the same time expanding the range of skimmed milk products.

The acquisition of LLC Zhyvyi Kvass now makes the kvass business a complete and profitable category for UPG. It will add energy to plans for the further successful development of Kvass drink sales supported by active marketing communications and strengthening of regional presence.

Overall, robust plans are in place to recover profitability in 2012 and move forward beyond. This will be a demanding task for the executives in the challenging Ukrainian business environment.

Jack Rowell
(Chairman)

Sergey Evlanchik
(CEO)



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KEY FINANCIAL DATA 2011

The Ukrainian economy

- Inflation rate reported at 9.2% (source: IMF)
- Real GDP increased by 5.2% year-on year (source: State Statistics Committee)
- Introduction of new stringent Tax Code significantly increased the tax burden
- Change in milk subsidy regime caused a 25% increase in actual milk prices with additional inflation induced by a supply shortage
- SMP worldwide conditions/local costs reversed profitability
- Substantial energy costs increase - gas (32% y-on-y) and electricity prices (22% y-on-y)

Revenue

- Overall revenue increased by 12% to GBP 50.5 m
- Core business:
 - Branded products increased by 9% y-o-y to GBP 34.7 m
Exports of branded products increased by 28% to GBP 743 k
 - Distribution services increased by 154% y-o-y to GBP 8.3 m
Exports of distribution services increased by 39% to GBP 3.7m
- Skimmed milk products declined by 24.6% to GBP 7.5 m

Gross profit

- Core business increased by 12.3% to GBP 7.26 m
- Skimmed milk products declined by 166% to minus GBP 457 k

EBITDA declined by 29% to GBP 1.86 m (2010: GBP 2.6 m)

Tax increased to GBP 431 k (2010: GBP 103 k)

Profit after Tax declined to GBP 400 k (2010: GBP 1.094 m)

Ukrproduct's financial position

- As at December 31, 2011 cash balance stood at GBP 512 k (2010: GBP 676 k)
- Additional banking facilities are available for all foreseen requirements

Sergey Evlanchik
Chief Executive Officer

25 April 2012

Sergey Evlanchik



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UKRPRODUCT AT A GLANCE

KEY FIGURES

	Year ended 31 December 2011	% change from 2010
Revenue	GBP 50.5 m	+12%
Gross Profit	GBP 6.8 m	-5%
Net Profit	GBP 0.4 m	-62%
Earnings per share	GBP 1.0 m	-62%

PRODUCTION & DISTRIBUTION

- Two major manufacturing plants are ISO-certified
- Annual production capacity of 70,000 tonnes of dairy products
- Ukraine-wide distribution network
- Provides distribution and logistics services to third parties



MARKET POSITION

Packaged Butter

Market Share: 23% (1st place)¹

Ukrproduct is the market leader for packaged butter in Ukraine.

Processed Cheese

Market Share: 16.3% (1st place)²

Ukrproduct Group offers a range of processed cheese products under well-recognised brands which focus on the mass, middle and premium markets.

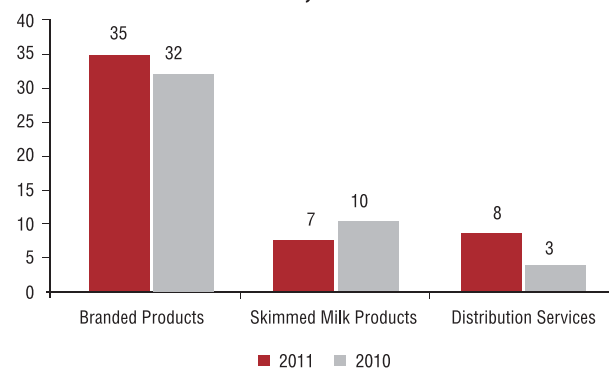
Spreads

Market Share: 2.5% (5th place)

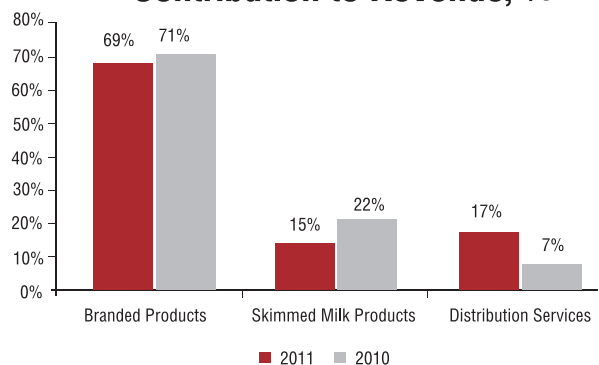
The Group sells butter-oil mix spreads under the 'Farmers' and 'People's Product' brands.

PRODUCTS & SERVICES

Revenue, GBP 'mln



Contribution to Revenue, %



¹ Expert estimates

² State Statistics Committee



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FINANCIAL REVIEW

Revenue

In 2011 Ukrproduct achieved an increase in revenue supported by a new sales and marketing strategy led by a new management team. Consolidated revenue increased by 12% compared to 2010 and was driven by growth in branded products and distribution services. In 2011 branded products sales rose by 9% year-on-year while distribution services showed a large increase of 154% year-on-year contributing significantly to the Group's gross profit. The branded products segment continued to account for the majority of the Group's revenue, representing 69% of total sales (71% in 2010). The revenue of the non-branded category declined by 25% year-on-year in the light of the decreased profitability of this category due to high input costs and weak domestic skimmed milk powder (SMP) prices.

Gross Profit and Administrative, Selling & Distribution Expenses (AS&D)

In 2011 margins came under pressure, mainly due to the introduction of the stringent new Tax Code and the changes in the milk subsidy system in Ukraine which resulted in the price of raw milk increasing by approximately 25%. The Group's gross profit declined by 5% year-on-year in 2011 to GBP 6.8 m compared to GBP 7.2 m in 2010 while the gross profit margin decreased to 13.5% from 15.9% in 2010.

The gross profit of branded products and distribution services increased by 4.2% and 126% respectively compared to 2010. The distribution of Kvass (a traditional brewed drink) significantly contributed to Group's profits and proved an encouraging growth trend. It was therefore disappointing that these improved operating results were undermined by the negative gross profit of GBP 457k from sales of non-branded products.

The Group's Administrative, Selling & Distribution expenses increased by 4% to GBP 5.8 m (2010: GBP 5.6 m), but the proportion of these expenses to total revenue declined by 0.9% to 11.5% compared to 12.4% in 2010.

EBITDA and Profit After Tax

In 2011 the Group's EBITDA declined by 29% year-on-year from GBP 2.6 m to GBP 1.9 m. Depreciation and amortisation expense declined by 17% y-o-y from GBP 1068k in 2010 to GBP 890k in 2011 following a change of depreciation method for all production equipment. The profit after tax decreased by 63% y-o-y from GBP 1,094k in 2010 to GBP 400k in 2011.

Earnings per Share and Dividends

The Group's basic earnings per share (EPS) and the diluted earnings per share declined by 63% y-o-y from 2.69 pence in 2010 to 1.00 pence in 2011.

	Sales 2011 £ 000	Share of Sales 2011	Sales 2010 £ 000	Share of Sales 2010	Gross Profit 2011 £ 000	Gross margin 2011	Gross Profit 2010 £ 000	Gross margin 2010
Branded	34,695	68,7%	31,828	70,7%	6,287	18,1%	6,033	19,0%
Non-branded	7,471	14,8%	9,913	22,0%	-457	-6,1%	693	7,0%
Distribution services	8,358	16,5%	3,279	7,3%	969	11,6%	428	13,1%
Total	50,524	100%	45,020	100%	6,799	13,5%	7,154	15,9%



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Business circumstances dictate prudence and the conservation of cash. The Board has therefore decided not to pay a final dividend in respect of the year ended 31 December 2011.

Bank Facilities

Ukrproduct has a GBP 3.9 m credit facility with OTP Bank, UkrsibBank and Forum Bank. As at 31 December 2011 the Group had drawn down GBP 3.4 m of the available facility.

On March 31, 2011 Starokonstantinovskiy Molochniy Zavod SC entered into a loan agreement with the European Bank for Reconstruction and Development (EBRD) and received access to a loan facility in the amount of EUR 11 million to finance a project to increase the energy efficiency and productivity of the plant. The project supports the Group's strategy to drive down unit cost and improve profit margins. As at December 31, 2011 the Group had received EUR 4.6 m of the EBRD loan.

Cash Flow

The Group's cash balance stood at GBP 0.51 m as at December 31, 2011 compared to GBP 0.68 m as at December 31, 2010. The cash generation by activities for 2011 is as follows:

- net cash generated by the operating activities totalled minus GBP 342k in 2011 compared to positive GBP 465k in 2010.
- the net cash used by investing activities totalled GBP 3.5 m in 2011 (2010: GBP 0.7 m) while GBP 3.4 m was used for the modernisation project of Starokonstantinovskiy Molochniy Zavod SC described above.
- cash from financing activities amounted to GBP 3.6 m in 2011 compared to GBP 0.8 m in 2010.

The Group's cash resources are sufficient to meet current debt obligations in the short and medium term.

Financial Reporting

The financial statements included in this report were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Olena Yakovenko
Chief Financial Officer
25 April 2011



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THE BOARD OF DIRECTORS

As of the date of the approval of the 2011 Annual Report, the Board members are as follows:

Name	Position	Date appointed
Jack Rowell	Non-executive Chairman	November 2004
Sergey Evlanchik	CEO	April 2008
Olena Yakovenko	CFO	September 2010
Alexander Slipchuk	Executive Director	November 2004



Jack Rowell

Non-executive Chairman

Dr. Rowell has acted as Chairman of a number of companies in the public and private sector, mainly within the food production industry. He was previously an executive director on the board of Dalgety plc responsible for the consumer foods division. Jack also served as Chairman of Celsis plc. He has also been Manager of Bath Rugby, then the Champions of England and the English national team. Prior to this, Dr. Rowell was CEO of Golden Wonder Ltd. and Lucas Food Ingredients (also part of the Dalgety Food Group). He was educated at Oxford University and is a Chartered Accountant.



Sergey Evlanchik

Chief Executive Officer

Sergey Evlanchik is responsible for the Group's overall performance and strategy implementation and is a founder of Ukrproduct Group. He studied at Vladivostok State University of Economics & Service in the Russian Federation and at Oxford University in the UK, where he received his MBA degree. Together with Alexander Slipchuk, he established the equity trading Group, Alfa-Broker in 1994 in the Far East of the Russian Federation. After the recess of the Russian and Ukrainian equity markets in 1998, Mr Evlanchik refocused his activities on business development in the industrial sector of Ukraine, particularly within the dairy industry, where he joined the companies that would subsequently form Ukrproduct Group in 2004. Sergey then led the Group to its successful listing on the AIM market of the London Stock Exchange in 2005.



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Olena Yakovenko

Chief Financial Officer

Olena Yakovenko was appointed Chief Financial Officer in September 2010. She rejoined the company in August 2009 as Head of Controlling and Risks Analysis Department, having previously served as Head of Finance of the Group between 2001 and 2004. From February 2008 to July 2009, she was an Executive Director and Deputy General Director in charge of Finance of ViDi Group Limited, a diversified Ukrainian holding Group. Prior to that, she held senior management positions at ViDi Group Limited between July 2006 and February 2008, and served as Finance Director at UTL-COM Limited between 2005 and 2006 and as Deputy Financial Director of Ukrtechnoprom, one of the leading suppliers of heating equipment in Ukraine, between 2004 and 2005. Olena is a graduate of Donetsk National University with a degree in Economics.



Alexander Slipchuk

Executive Director

Alexander Slipchuk studied at Far-Eastern High Engineering Marine School in Russia and graduated as a maritime navigator in 1989. Together with his partner Sergey Evlanchik, Alexander established the securities house Alfa-Broker in 1994, developed the equity trading business in the far east of the Russian Federation, and acquired initial stakes in the companies that later became part of Ukrproduct Group. Later in 1998, Alexander took on the executive positions at the Molochnik and the Starakonstantinovski Dairy plants, Ukrproduct's two main operating assets. He serves as the Group's Executive Director in an advisory capacity.



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REMUNERATION COMMITTEE REPORT

This report is prepared by the Remuneration Committee of the Board and sets out the Group's policy on the remuneration of the Directors, with a description of service agreements and remuneration packages for each Director.

Remuneration Committee

The Remuneration Committee comprises one non-executive Director, Jack Rowell. This Committee is scheduled to meet at least twice per annum to advise the Board on the Group's remuneration strategy and to determine the terms of employment and total remuneration of the respective Executive Directors of the Group and of its subsidiary companies, including the granting of share options. Among others, the objective of this Committee is to attract, retain and motivate Executives capable of delivering the Group's objectives. The Remuneration Committee is also responsible for the evaluation of the performance of Executive Directors.

The Remuneration Committee held two meetings during 2011.

Remuneration Policy

The Company's remuneration policy is to provide remuneration packages which:

- are designed to attract, motivate and retain high calibre Executives;
- are competitive and in line with comparable businesses;
- are rooted in practices exercised in countries where the Group operates;
- intend to align the interests of the Executives with those of the shareholders by means of fixed and performance related remuneration; and
- set challenging performance targets and motivate Executives to achieve those targets both in the short and long-term.

Base salary

The Committee on an annual basis reviews base salaries of

the respective Executive Directors of the company and its subsidiaries, taking into account job responsibilities, competitive market rates and the performance of the Executive concerned. Consideration is also given to the cost of living and the Director's professional experience. While determining the base salaries, the Committee also considers general aspects of the employment terms and conditions of employees elsewhere in the Group.

Incentive bonus plans and equity arrangements

The Committee plans to consider developing long-term equity incentive arrangements to make the overall Executive Remuneration structure more performance-related, more competitive and aligned with shareholders' interests.

Service contracts

The appointments of the respective Executive Directors of the company and its subsidiaries are valid for an indefinite period and may be terminated with three months notice given by either party at any time. The company or subsidiary's policy for compensation for loss of office is to provide compensation which reflects the Group or that subsidiary company's contractual obligations.

Bonus Scheme

The Committee has established a cash bonus scheme for Executive Directors based on the overall performance of the Group and/or respective subsidiary company and attainment of the operating profit targets.

Non-executive directors

The appointments of non-executive Directors are valid for an indefinite period and may be terminated with three months notice given by either party at any time. The decision to re-appoint, as well as the determination of the fees of the non-executive Directors, rests with the Board. The non-executive Directors may accept appointments with other companies, although any such appointment is subject to the Board's approval and terms and conditions of Service Agreements.



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Directors' remuneration

Details of the Directors' cash remuneration are outlined below:

GBP	Annual Salary/fee		Bonus		Non-cash compensation		Total cash remuneration	
	2011	2010	2011	2010	2011	2010	2011	2010
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Executive								
Olena Yakovenko	40	10	-	-	-	-	40	10
Alexander Slipchuk	70	70	-	-	-	-	70	70
Sergey Evlanchik	90	90	-	-	-	-	90	90
Non-executive								
Dr Jack Rowell	45	45	-	-	-	-	45	45

Share based payments

In 2009 the company granted share options to Jack Rowell, the Chairman. Details of the options outstanding at 31 December 2011 are shown below. The Directors' Remuneration disclosed above does not include any amounts for the value of options to acquire shares of the company.

Directors	Share Options	Exercise Price, pence	Exercise Period
Jack Rowell	130,290	12.8	to 06/07/2013

As at the year end date, these options were not exercised.



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CORPORATE GOVERNANCE REPORT

Corporate Governance Policy

Effective corporate governance is a priority of the Board and outlined below are details of how the Company has applied the principles set out in The Combined Code on Corporate Governance (the “Code”) revised in July 2006 by the Financial Reporting Council. Under the rules of AIM, a market operated by the London Stock Exchange, the company is not required to comply with the Code and the Board considered that the size of the Group does not warrant compliance with all of the Code’s requirements. The Board fully supports the principles on which the Code is based and seeks to comply with best practice in such respects as they consider appropriate for a Group of its size and nature. The Board has a wide range of experience directly relevant to the Group and its activities and its structure ensures that no one individual or group dominates the decision making process.

The Board

The Board consists of one non-executive and three Executive Directors. The roles of the Chairman of the Board and the Chief Executive of the Group are held separately with a clear division of responsibility between them. The Chairman of the Board is an independent non-executive Director.

Within the scope of the corporate governance procedures, the Board meets regularly to consider the financial results, budgets, and major items of capital expenditure of all the Group’s companies. This body is also responsible for formulating, reviewing and approving the Group’s strategy and the phases of its development.

The Board met six times during 2011 and all the directors attended all meetings, with the exception of Mr Alexander Slipchuk, who attended five of six meetings, missing one by prior arrangement and Mrs Olena Yakovenko, who attended five of six meetings, missing one for health reasons.

Board Committees

The Board is assisted by the Audit and Remuneration Committees.

Audit Committee

The Audit Committee consists of one non-executive Director, Jack Rowell. The member of the Audit Committee has relevant financial experience. This Committee, inter alia, is responsible for reviewing the Annual and Interim financial statements, in addition to the systems of internal control and risk management, and also for ensuring the integrity of the financial information reported to the shareholders.

The Audit Committee met twice during 2011.



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Remuneration Committee

The Remuneration Committee comprises one non-executive Director, Jack Rowell. This Committee is scheduled to meet at least twice per annum to advise the Board on the Group's remuneration strategy and to determine the terms of employment and total remuneration of the Executive Directors, including the granting of share options. Among others, the objective of this Committee is to attract, retain and motivate Executives capable of delivering the Group's objectives. The Remuneration Committee is also responsible for the evaluation of the performance of Executive Directors.

The Remuneration Committee held two meetings during 2011.

Relations with shareholders

The Group maintains regular contact with its institutional and private shareholders, fund managers, financial analysts and brokers through a series of presentations, conference calls and meetings. All corporate materials, including annual reports, financial results statements and other information, are available on the Group's website www.ukrproduct.com

The Chief Executive Officer and Chief Financial Officer hold conference calls and meetings with major shareholders on a regular basis. The Board believes that it is essential to discuss with its major shareholders and keep them updated with regards to the Group's financial performance, strategy and business developments. The Chairman is also accessible to major shareholders, if such meetings are required.

The Board invites all shareholders to attend the Company's Annual General Meeting and encourages them to exercise their voting right and participate with questions.

Internal Control

The Group adheres to comprehensive and strictly regulated budgeting and reporting procedures that are aimed at more efficient internal control and risk management. The Board is

responsible for the Group's system of internal control and for reviewing its effectiveness, however, it is recognised that any control system can only provide reasonable and not absolute assurance against material misstatement or loss.

The principal elements of the internal control system are as follows:

- documented policies, procedures and authorisation levels;
- clearly defined lines of responsibility in the organisational structure of the Group;
- a management structure which facilitates ease of communication both vertically and horizontally;
- annual budgeting and monthly reporting procedures.

The annual budgets consist of monthly budgets, which are updated each month once actual figures become available. Due to the dynamic development of the macroeconomic environment of the country the Group operates in, variances in actual figures for sales, prices and other underlying assumptions from those forecasted may occur. Hence, the budget is flexed to better reflect the future of the Group. Such variances by each company within the Group are discovered and recommendations for further actions are formulated.

The internal control system is further enforced by the Group's internal audit department. The main objectives of the internal audit function are to ensure the safety of the Company's assets and the reliability of accounting records. The internal audit department is responsible for auditing the financial statements and accounting procedures of the companies within the Group, as well as for disclosing and reducing various types of risks related to Group operations. Each company within the Group has a designated auditor, who systematically performs the audits.

The Group's controlling and risks analysis department is responsible for identifying the possible issues in the Group's processes, the ongoing optimization of operations and risk management.



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CORPORATE SOCIAL RESPONSIBILITY REPORT

Corporate Social Responsibility

The Board is committed to developing and implementing corporate social responsibility (CSR) policies aimed at:

- Promoting equality and fairness among employees, partners and suppliers
- Ensuring safe working conditions
- Maintaining the Group's corporate reputation and dedication to business ethics
- Supporting the communities in which the Group operates
- Establishing long-term and healthy relationships with the Group's partners, customers and other affiliated parties.

The main elements of the Group's approach towards fulfilling the above objectives are as follows:

Employees

The Group is committed to ensuring equal opportunities to all its employees, both current and prospective. Each employee's efforts are highly valued and the Board believes that a diverse mix of the workforce facilitates innovation, efficiency and teamwork. As a matter of corporate policy, regular training and development workshops are conducted for Ukrproduct's staff. These are aimed

at all employee groups, including managerial, technical and production personnel. The training programmes encourage staff to progress up the career ladder and are central to the Group's continuing growth and success.

Health and safety

Management at business units within the Group are responsible for developing and maintaining the underlying practices that provide for a safe working environment. Special attention is given to the production facilities, where the equipment, including lighting, air conditioning, workspace and other constituents, undergo constant reviews and improvements. Regular monitoring is carried out to ensure that the required standards are met and that employees use the provided communication channels to further improve their surrounding working conditions.

Customers

Customer satisfaction is at the core of the Group's business model. Therefore, the Board is keen to continue supplying the customers with high quality, affordable products required by current market demands. The Group's segmentation practices are aimed at segregating various customer groups in order to meet their respective needs with maximum efficiency. In addition, regular market research and surveys are conducted to ensure maximum value is consistently offered to customers.



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Environment

The Group recognises the importance of good environmental practices and seeks to minimise a negative impact that its operations or products might have on the production sites and surrounding areas. The Group adopted the environmental laws and regulations of Ukraine to reduce, control and eliminate various types of pollution and to protect natural resources. Ukrproduct monitors and controls all its production facilities regularly in order to ensure that air quality is not adversely impacted by its operations. The Group focuses on cutting water and energy consumption, as well as reducing the volumes of waste. Collection and processing of waste have been organised through the local waste collection plants. The Group's development programme of 2008-2012 puts specific emphasis on acquiring and installing only the most advanced and environmentally-friendly production and auxiliary equipment.

Food safety

Food safety is one of key priorities for the Group. Ukrproduct is committed to produce high quality and safe food and ensures that high standards are maintained within its supplier base. The certified food safety management system in compliance with ISO 22000:2005 was implemented by the Group. This system provides the possibility to fully monitor all production stages - from forage control and sound health of the cattle to the final product distribution.

Community support

The Group is keen to further enhance and maintain its partnership with local communities by supporting their initiatives and charitable events. The Group contributes cash donations and gifts, as well as employee time, by encouraging staff to participate as volunteers.



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DIRECTORS' REPORT

The Directors present their report and the audited consolidated financial statements of Ukrproduct Group Ltd (referred to as the company and together with its subsidiaries as "the Group") for the year ended 31 December 2011.

Principal Activities and business review

Ukrproduct Group Ltd (the company or "Ukrproduct") is a holding Group for a group of dairy based FMCG (fast moving consumer goods) businesses located in Ukraine. The principal activities of Ukrproduct Group are the production and distribution of highly branded dairy foods in Ukraine and the export of milk powder. The Group is one of the leading branded food producers in Ukraine with its own nationwide distribution network. More detailed commentary on the Group's activities during the year, its financial performance, future plans, and prospects are outlined in the Chairman and Chief Executive Statement and in the Financial Review.

Results and Dividends

The results of the Group for the year are set out on page 22 and show a profit for the period of GBP 0.4 million (2010: GBP 1.094 million).

Based on the Group's financial performance in 2011, the Group did not pay any interim dividend. Business circumstances dictate prudence and the conservation of cash. The Board has therefore decided not to pay a final dividend in respect of the year ended 31 December 2011.

Directors

Details of members of the Board of Directors are shown on pages 10-11

The Directors' interests in the share capital of the company as at 31 December 2011 and 31 December 2010 are shown below:

	Shares		Share options	
	2011	2010	2011	2010
Executive				
Sergey Evlanchik	14,422,383	14,422,383	-	-
Alexander Slipchuk	14,487,383	14,487,383	-	-
Non-executive				
Dr Jack Rowell	38,690	38,690	130,290	130,290



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Powers of the Directors

Subject to the Company's Memorandum and Articles of Association, Companies (Jersey) Law 1991, as amended and any directions given by special resolution, the business of the company shall be managed by the Directors who may pay all expenses incurred in setting up and registering the company and who may exercise all such powers of the company. The rules in relation to the appointment and replacement of Directors are set out in the company's Article's of Association.

Financial Risks Facing the Group

The principal risks of the business are credit risk, liquidity risk and market risk, including fair value or cash flow interest-rate risk and foreign exchange risk. The main purpose of the Group's risk management programme is to evaluate, monitor and manage these risks and to minimise potential adverse effects on the Group's financial performance and shareholders. The Chief Financial Officer of the Group is in charge of risk management and introduction of all policies as approved by the Board of Directors.

For further details of the Group's risk management please see note 5 on page 49

Employees

The Group is committed to ensuring provision of equal opportunities for all employees, which is reflected by its selection, recruitment and training policies. The Group considers its employees to be one of its most valuable assets and rewards high performance through competitive remuneration and incentive schemes. The Directors also consider it a priority to give employees the opportunity to communicate their ideas and opinions to all levels of management, both directly and through various surveys. The average number of employees totalled 1,751 in 2011 (2010: 1,857).

Payment Policy

The Group has a general set of guidelines for paying its suppliers based on specific criteria. However, it is normal practice to agree payment terms with a specific supplier when entering into

a purchase contract. The Group seeks to abide by the payment terms agreed whenever it is satisfied that the goods or services have been provided in accordance with the agreed terms and conditions.

Going concern

Following a review of the Group's financial position and its budgets and plans, the directors have concluded that the Group has sufficient financial resources to meet working capital requirements for a period of up to 12 months from the date of these financial statements.

Annual General Meeting

Ukrproduct's AGM will be held on 7 June, 2012. The Notice of AGM and agenda will be sent to shareholders no less than 18 days prior to the date of the meeting.

Auditors

Baker Tilly Channel Islands Limited was re-appointed as the Group's auditors for the 2011 financial year by the resolution of the Annual General Meeting (AGM) of Shareholders held on June 9, 2011. A resolution to re-appoint them shall be proposed at the forthcoming AGM.

Statement as to disclosure of information to the auditor

All of the current Directors have taken the necessary steps to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

Jack Rowell
Chairman
25 April 2012



UKRPRODUCT GROUP



STATEMENT OF DIRECTORS RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2011 AND 31 DECEMBER 2010

The directors are responsible for the preparation of the consolidated financial statements in accordance with applicable Jersey law and other regulations and enactments in force at the time. The Companies (Jersey) Law 1991, as amended requires the directors to prepare financial statements for each year in accordance with General Accepted Accounting Principles. Under that law, the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company Law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of its profit or loss for the period ended.

In preparing these consolidated financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the financial information comply with IFRS, subject to any material departures disclosed and explained in the financial information;
- prepare the financial information on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Board of Directors confirms that the Group has complied with the above mentioned requirements in preparing its Consolidated financial statements.

The directors are also responsible for:

- implementing and maintaining an efficient and reliable system of internal controls in the Group;
- keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group;
- taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities; and
- the maintenance and integrity of the Group's website.

Jack Rowell

Chairman Ukrproduct Group Ltd
25 April 2012



UKRPRODUCT GROUP



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF UKRPRODUCT GROUP LIMITED

We have audited the consolidated financial statements of Ukrproduct Group Limited (the company which together with its subsidiaries is referred to as "the Group") for the year ended 31 December 2011 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes (the financial statements). The financial reporting framework that has been applied in their preparation is applicable Jersey law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991, as amended. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law, 1991 as amended.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

Ewan John Spraggon

For and on behalf of Baker Tilly Channel Islands Limited
Chartered Accountants

Ewan John Spraggon St Helier, Jersey
25 April 2012



UKRPRODUCT GROUP



CONSOLIDATED INCOME STATEMENT

	Note	year ended 31 December 2011 £ '000	year ended 31 December 2010 £ '000
Revenue	8	50 524	45 020
Cost of sales	9, 2.1 (f)	(43 725)	(37 866)
GROSS PROFIT		6 799	7 154
Administrative expenses	9	(2 855)	(2 899)
Selling and distribution expenses	9, 2.1 (f)	(2 790)	(2 184)
Other operating income / (expenses), net	9	(183)	(502)
PROFIT FROM OPERATIONS		971	1 569
Net finance costs	10	(428)	(367)
Effect of foreign currency translation		288	(5)
PROFIT BEFORE TAXATION		831	1 197
Income tax expenses	13	(431)	(103)
PROFIT FOR THE YEAR		400	1 094
Attributable to:			
Owners of the Parent		410	1 104
Non-controlling interests		(10)	(10)
Earnings per share:			
Basic		1,00	2,69
Diluted		1,00	2,69



UKRPRODUCT GROUP



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	year ended 31 December 2011 £ '000	year ended 31 December 2010 £ '000
PROFIT FOR THE YEAR	400	1 094
OTHER COMPREHENSIVE INCOME:		
Exchange differences on translation to the presentation currency	(28)	351
Gain on revaluation of property, plant and equipment	-	4 112
Income from changes in tax rates	268	-
Tax effect from change in revaluation reserve	(62)	(1 028)
OTHER COMPREHENSIVE INCOME, NET OF TAX	178	3 435
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	578	4 529
Attributable to:		
Total for owners of the Parent	588	4 539
Total non-controlling interests	(10)	(10)

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	As at 31 December 2011 £ '000	As at 31 December 2010 £ '000
ASSETS			
Non-current assets			
Property, plant and equipment	14	17 173	12 263
Intangible assets	15	1 055	1 000
Available for sale investments		169	89
Deferred tax assets	16	50	248
		18 447	13 600
Current assets			
Inventories	17	4 634	3 985
Trade and other receivables	18	6 906	5 605
Current taxes	19	404	1 094
Other financial assets	20	177	220
Cash and cash equivalents	21	512	676
		12 633	11 580
TOTAL ASSETS		31 080	25 180
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	22	4 082	4 082
Other reserves	23	2 868	2 068
Retained earnings		12 367	12 817
		19 317	18 967
Non-controlling interests	24	-	20
		19 317	18 987
Non-Current Liabilities			
Bank borrowings		3 844	-
Deferred tax liabilities	16	881	1 434
		4 725	1 434
Current liabilities			
Bank borrowings	25	3 514	2 938
Trade and other payables	26	3 165	1 715
Current income tax liabilities		108	68
Other taxes payable		251	38
		7 038	4 759
TOTAL EQUITY AND LIABILITIES		31 080	25 180

These financial statements were approved and authorised for issue by the Board of Directors on 24 April 2012 and were signed on its behalf by:

Olena Yakovenko
Chief Financial Officer
25 April 2012

Olena Yakovenko

Notes on pages 28 - 83 are an integral part of these consolidated financial statements.



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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent					Total £ '000	Non- controlling interests £ '000	Total Equity £ '000
	Share capital £ '000	Share Merger premium reserve £ '000	Revaluation reserve £ '000	Retained earnings £ '000	Translation reserve £ '001			
As at 1 January 2010	4 107	4 588 (1 427)	1 333	11 744	(5 777)	14 568	30	14 598
Profit for the year				1 104		1 104	(10)	1 094
Other comprehensive income								
Gain on the revaluation of property, plant and equipment			3 084			3 084		3 084
Currency translation differences					351	351		351
Total comprehensive income	-	-	3 084	1 104	351	4 539	(10)	4 529
Transactions with owners								
Dividends paid				(82)		(82)		(82)
Total transactions with owners	-	-	-	(82)	-	(82)	-	(82)
Depreciation on revaluation of non current assets			(50)	50		-		-
Reduction of revaluation reserve			(1)		1	-	-	-
Acquiring of shares (Note 22)	(25)	(33)				(58)		(58)
As at 31 December 2010	4 082	4 555 (1 427)	4 366	12 817	(5 426)	18 967	20	18 987
Profit for the year				410		410	(10)	400
Other comprehensive income								
Income from changes of tax rates			206			206		206
Currency translation differences					(28)	(28)		(28)
Total comprehensive income	-	-	206	410	(28)	588	(10)	578
Transactions with owners								
Dividends paid (Note 28)				(204)		(204)		(204)
Total transactions with owners	-	-	-	(204)	-	(204)	-	(204)
Depreciation on revaluation of property, plant and equipment			(302)	302		-		-
Reduction of revaluation reserve			(136)	102		(34)		(34)
Exclusion from Group (Note 2.1 (c))		1 060		(1 060)		-	(10)	(10)
As at 31 December 2011	4 082	4 555 (367)	4 134	12 367	(5 454)	19 317	-	19 317



CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	year ended 31 December 2011 £ '000	year ended 31 December 2010 £ '000
Cash flows from operating activities			
Profit before taxation for the year		831	1 197
Adjustments for:			
Exchange difference		(288)	5
Depreciation and amortisation	11	890	1 068
(Profit)/loss of disposal of property, plant and equipment		(214)	74
Impairment of trade receivables		51	129
Income from disposal of subsidiaries		(18)	-
Interest income		(19)	(20)
Interest expense		447	387
Increase in inventories		(583)	(1 468)
Increase in trade and other receivables		(2 789)	(1 082)
Increase in trade and other payables		1 842	492
Cash generated from operations		150	783
Interest received		19	20
Income tax paid		(511)	(338)
Net cash (used in) / generated by operating activities		(342)	465
Cash flows from investing activities			
Payments for property, plant and equipment		(3 792)	(357)
Proceeds from sale of property, plant and equipment		422	16
Purchase of available for sale investments		-	(203)
Purchase / sale of investments		113	(24)
Repayments of loans issued		(222)	(139)
Net cash used in investing activities		(3 479)	(707)
Cash flows from financing activities			
Own shares acquisition	22, 23	-	(58)
Dividends paid	28	(204)	(82)
Interest paid	10	(447)	(387)
Increase in short term borrowing		561	1 312
Increase in long term borrowing		3 707	-
Net cash used in financing activities		3 617	785
Net (decrease) / increase in cash and cash equivalents		(204)	543
Effect of exchange rate changes on cash and cash equivalents		40	(103)
Cash and cash equivalents at the beginning of the year		676	236
Cash and cash equivalents at the end of the year	21	512	676



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GROUP AND PRINCIPAL ACTIVITIES

The Company is a public limited liability entity registered in Jersey with a registered office at 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands.

The Group's overall management and production facilities are based in Ukraine, with the HQ in Kyiv. The Group commands leading positions in the Ukrainian processed cheese and packaged butter markets and owns a range of widely recognisable trademarks in Ukraine, including "Nash Molochnik" (translated as Our Dairyman), "Narodniy Product" (People's Product) "Molendam" and "Vershkova Dolina" (Creamy Valley). The average number of employees of the Group during the year ended 31 December 2011 was 1,751 (2010: 1,857).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for property, plant and equipment, intangible asset (Customer list) that have been measured at fair value. The consolidated financial statements are presented in British pounds sterling and all values are rounded to the nearest thousand (£000) except where otherwise indicated. The consolidated financial statements have been prepared on a going concern basis.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union.



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The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Further information is provided in note 3.

(b) Consolidation principles

The consolidated financial statements comprise the financial statements of Ukrproduct Group Limited and its subsidiaries as at 31 December 2011.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses incurred by the Group are attributed to the non-controlling interests. Any further excess losses were attributable to the parent, unless the non-controlling interests has a binding obligation to cover these. Upon loss of control, the Group accounts for the investment retained at its proportionate share of net asset value at the date control was lost.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.



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Consolidated financial statements of the Group include following companies:

Group's company	Country of incorporation	Effective ownership ratio*		Principal activities	Consolidation method
		As at 31 December			
		2011	2010		
Promislove Pidприємство Pischeprom OJSC*	Ukraine	-	97,6%	Production	Acquisition
Molochnik LLC*	Ukraine	100%	100%	Production	Acquisition
Starokonstantinovskiy Molochniy Zavod SC*	Ukraine	100%	100%	Production	Acquisition
Starkon-Moloko LLC*	Ukraine	100%	100%	Owner of property & equipment	Acquisition
Krasilovsky Molochny Zavod Private Enterprise SC*	Ukraine	100%	100%	Production	Acquisition
Zhmerinsky Maslosyrzavod Private Enterprise SC *	Ukraine	-	100%	Production	Acquisition
Letchivsky Maslozavod Private Enterprise SC*	Ukraine	100%	100%	Production	Acquisition
Zhiviy Kvas LLC**	Ukraine	100%	-	Production	Acquisition
Teofipolskiy Dairy Plant Private Enterprise SC*	Ukraine	100%	100%	To be constructed	Acquisition
Milk investments Private Enterprise SC*	Ukraine	100%	100%	Owner of equipment	Acquisition
Invest Garantiya Private Enterprise*	Ukraine	100%	100%	Owner of equipment	Acquisition
Business Invest Management LLS*	Ukraine	100%	-	Owner of equipment	Acquisition
Favorit-Konsulting Private Enterprise**	Ukraine	100%	100%	Owner of equipment	Acquisition
Avtopark Starokonstantinov LLS**	Ukraine	100%	100%	Owner of fleet of vehicles	Acquisition
ATP Centr LLC**	Ukraine	100%	100%	Owner of fleet of vehicles	Acquisition
Tekhnopolprom Private Enterprise SC**	Ukraine	-	100%	Owner of property & equipment	Acquisition
Molochiy Promisloviy Kapital Private Enterprise SC* ¹	Ukraine	-	-	Owner of equipment	Acquisition
STK-moloko Private Enterprise SC*	Ukraine	-	100%	Production	Acquisition



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Group's company	Country of incorporation	Effective ownership ratio*		Principal activities	Consolidation method
		As at 31 December			
		2011	2010		
Ukrprodexport Private Enterprise SC*	Ukraine	100%	100%	Export operations	Acquisition
Ukrproduct-Logistic LLC *	Ukraine	100%	100%	Logistics	Acquisition
Agrospetsresursy LLC*	Ukraine	-	100%	Former Distribution	Acquisition
Nash Molochnik Private Enterprise SC***	Ukraine	-	100%	Former Distribution	Acquisition
Gollandska Sirovarnya Molendam LLC*	Ukraine	100%	-	Sales&Distribution	Acquisition
Molochniy Torgoviy Souys LLC****	Ukraine	100%	-	Sales&Distribution	Acquisition
Lider-Product LLC****	Ukraine	100%	-	Sales&Distribution	Acquisition
Premierproduct-Donetsk Private Enterprise SC****	Ukraine	100%	100%	Sales&Distribution	Acquisition
Premierproduct-Mikolaiv Private Enterprise SC****	Ukraine	100%	100%	Sales&Distribution	Acquisition
Premierproduct-Dnipro Private Enterprise SC****	Ukraine	100%	100%	Sales&Distribution	Acquisition
Premierproduct-Jitomir Private Enterprise SC****	Ukraine	100%	100%	Sales&Distribution	Acquisition
Premierproduct-Lviv Private Enterprise SC****	Ukraine	100%	100%	Sales&Distribution	Acquisition
Premierproduct-Harkiv Private Enterprise SC****	Ukraine	100%	100%	Sales&Distribution	Acquisition
Premierproduct-Centr Private Enterprise SC****	Ukraine	100%	100%	Sales&Distribution	Acquisition
Ukrproduct Group CJSC	Ukraine	100%	100%	Holder of some assets and operating companies	Merger
LinkStar Limited	Cyprus	100%	100%	Holder of Group's trademarks and assets	Merger
Dairy Trading Corporation Limited	BVI	100%	100%	Export operations	Merger
St. Invest Holding LTD	BVI	100%	100%	Holder of distribution network	Acquisition
Ukrproduct Group LTD	Jersey			Listed on LSE	Parent

* The companies are held through Ukrproduct Group CJSC which is a 100%-owned subsidiary of the Company

** The companies are held through LinkStar Limited which is a 100%-owned subsidiary of the Company

*** Subsidiaries of Agrospetsresursy LLC.

**** Subsidiaries of St. Invest Holding LTD, the Group's specialised distribution companies.

¹ Molochiy Promisloviy Kapital Private Enterprise SC was formed and excluded from the Group during the year ended 31 December 2011.



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(c) Reorganisation

A reorganisation of the Group's legal structure took place in 2011 and resulted in:

- withdrawal of seven companies for the purpose of improving the administration and reporting processes;
- new subsidiaries of Ukrproduct Group "Lider-Product" LLC and "Molochnyi Torgovyi Soyuz" LLC were formed to increase efficiency of the logistics and sales functions. The sales activity was splitted into two directions and became focused on selling to: 1) large clients and 2) small clients. The logistics function was shifted from trading companies to UPG's logistic company (Ukrproduct-Logistic LLC);
- a strategic acquisition of the branded kvass business "Zhyvyi Kvass" LLC through the purchase of its 100% share capital in December 2011. The Group from September 2010 until the date of acquisition has been the exclusive distributor of "Arsenievsky" branded kvass; a traditional fermented beverage made from rye, black bread or barley. This has proved to be successful and there are encouraging growth prospects. The existing distribution agreement was due for renewal at the end of 2012.

The consideration and the fair value of the net assets acquired are disclosed in Note 33.

(d) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, shares issued or liabilities undertaken at the acquisition date, and any costs directly related to the acquisition of the company are expensed.

(e) Non-controlling interests

Non-controlling interests represent a portion of profits or losses and net assets not owned by the Group. Non-controlling interests are presented separately from parent share capital in equity in the Consolidated statement of financial position.

(f) Change in accounting estimate

Change of depreciation method for certain equipment

The Group changed its basis of depreciation from the declining balance method for buildings and vehicles to the straight-line method of depreciation. The change was due to the requirements of the new Ukrainian Tax code. The Group also changed the method of depreciation for the production equipment other than cheese manufacturing equipment from declining balance method to unit of production method. Management believes this method reflects better use of the Group's equipment. The effect of the changes in accounting estimates was to decrease depreciation by about GBP 498,843.

Reclassification of delivery cost from the Group's manufacturing to trading enterprises

The Group changed the presentation of product delivery costs from the Group's manufacturing facilities to the trading enterprises. Starting from 1 January 2011 these costs have been included in the cost of sales of finished products. In previous periods these expenses were included within selling and distribution expenses. Management believes this provides a fair presentation of the Group's cost allocation as intercompany transportation expenses are related to cost of sales in accordance with IAS 2 "Inventories". The prior year comparative cost of GBP 517,000 has also been appropriately reclassified.



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(h) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

2.2. Significant accounting policies

Significant accounting policies given below have been consistently applied by the Group in the preparation of these financial statements.

2.2.1. Foreign currency transactions

(a) Functional and presentation currency

Management has considered what would be the most appropriate functional and presentational currencies for these financial statements. As a result of this review management has concluded that:

- the Ukrainian Hryvnia is the currency of the primary economic environment in which the Group operates. Consequently the Ukrainian Hryvnia is the most appropriate functional currency for the Group;
- the Group should use British pounds sterling as the presentational currency for its consolidated IFRS financial statements.

Transactions in currencies that differ from the Group's functional currency are considered to be foreign currency transactions.

The majority of companies making up the Group maintain their accounting records in accordance with Ukrainian regulations. The financial statements have been prepared from those accounting records and adjusted as considered necessary in order to comply with IFRS. Accounting records of the Operating Group are maintained in Ukrainian Hryvnia ("UAH"). The Hryvnia is the

functional currency for the purpose of the consolidated financial statements. Since the Ukrainian Hryvnia is not a major convertible or recognisable currency outside of Ukraine, and also because the Group's public shareholder base has been located mostly in the UK, the financial information has been translated into British pounds sterling (hereinafter "GBP" or £) as the Group's presentational currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses are presented in the income statement within "Effect of foreign currency translation".

Financial results and financial position of the Group's companies are translated into the presentation currency as follows:

- For current year, all assets and liabilities are translated at the rate effective at the reporting date. Income and expense items are translated at rates approximating to those ruling when the transactions took place.
- Equity items are translated into the presentation currency using the historical rate;
- For comparative figures, all assets and liabilities are translated at the closing rate existing at the relevant reporting date. Income and expense items are translated at rates approximating to those ruling when the transactions took place.
- All exchange differences resulting from the application of the translation methods described above are recognised directly in equity as a separate component of equity
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of



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the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- All resulting exchange differences are recognised as a separate component of equity within "Translation reserve".

(b) Transactions and balances (continued)

The principal UAH exchange rates used in the preparation of Consolidated financial statements are as follows:

Currency	31 December 2011	Average exchange rate for 2011	31 December 2010	Average exchange rate for 2010
UAH/ GBP	12,32	12,77	12,29	12,26
UAH/ USD	7,99	7,97	7,96	7,93
UAH/ EUR	10,30	11,07	10,57	10,56

- Foreign currency can be freely converted within Ukraine at a rate close to the rate of the National Bank of Ukraine. At present, the UAH is not a freely convertible currency outside Ukraine.

2.2.2. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included in current liabilities in the statement of financial position.

2.2.3. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

The Group identifies the following types of inventories:

- raw and other materials (including main and auxiliary operating supply and materials);
- work in progress (including semi finished products);
- finished goods;
- other inventories (including fuel, packaging, building materials, spare parts, other materials, goods of little value and high wear goods).

The cost of finished goods and semi finished products comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. The cost of raw materials and other inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

At each reporting date the Group analyses inventories to determine whether they are damaged, obsolete or slow-moving or whether their net realizable value has declined. The net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The Group periodically checks inventories to determine whether they are damaged, obsolete or slow-moving or if their net realisable value has declined for any other reason and reduces accordingly the value of inventory to properly reflect in the Consolidated Income Statement within Cost of sales.

2.2.4. Property, plant and equipment



(a) Recognition and measurement of property, plant and equipment

The cost of an item of property, plant and equipment shall be recognized as an asset only if: it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably and entity expects to use items during more than one period (more than 12 months).

The Group adopted the revaluation model (as defined in IAS 16: Property, Plant and Equipment) for all classes of assets, except office equipment which is carried at cost. Management believe that this policy provides more reliable and relevant financial information because it better reflects the value in use of such assets to the Group. In accordance with the provisions of that standard, the revaluation model has not been applied retrospectively.

All significant categories of property, plant and equipment are subsequently carried at fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Changes in fair value are recognised in equity (the “revaluation reserve”). An appropriate transfer is made from the revaluation reserve to the retained earnings when assets are expensed through the income statement (e.g. through depreciation, impairment or sale).

Subsequent costs that increase future economic benefits of the item of property, plant and equipment also increase its carrying amount. Otherwise, the Group recognizes subsequent costs as expenses of the period in which they were incurred. The Group classifies costs, associated with property, plant and equipment, for the following categories: repairs and maintenance; capital repairs, including modernization.

(b) Impairment of property, plant and equipment

At each reporting date the Group assesses the carrying value of its property, plant and equipment to determine whether there is any evidence that the assets have lost part of their value as a result

of impairment. If such evidence exists, the expected recoverable amount of such an asset is calculated to determine the amount of impairment loss, if any. In case it is not practicable to determine the expected recoverable amount of a separate asset, the Group determines the expected recoverable amount of a cash generating unit, to which the asset belongs.

When, according to estimates, the expected recoverable amount of an asset (or a cash generating unit) is lower than its carrying value, the carrying value of an asset (or a cash generating unit) is reduced to its expected recoverable amount. Impairment losses are immediately recognized as expenses, except when the asset is carried at revalued price. In such cases, the impairment loss is considered as a decrease in the revaluation reserve. If the impairment loss is subsequently reversed, the asset’s carrying value (or a cash generating unit) is increased to the revised estimate of its expected recoverable amount. In such a case, the increased carrying value should not exceed the carrying value that could be determined in case if the impairment loss for an asset (or a cash generating unit) was not recognized in previous years. The reversal of the impairment loss is immediately recognized as income.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in operating profit.

(c) Depreciation and useful life

Depreciation of asset begins when it becomes available for use. Depreciation of an asset terminates with the termination of its recognition. Depreciation does not terminate when an asset is idle or if it is removed from active use and is intended for disposal, unless it is already fully depreciated.

Depreciation is applied to all items of property, plant and equipment with the exception of land. Until December 31, 2009 the Group calculated the depreciation using the reducing balance method to allocate their cost or revalued amounts to their residual values over their estimated useful lives. As of January 1, 2010



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the Group separated the equipment used for production of hard and processed cheese into a separate group and applied to it the production method of depreciation. As of January 1, 2011 the Group applied the production method of depreciation to all production equipment as management considered this method to be the most appropriate for the production assets. The useful life of property, plant and equipment is as follows:

Terms of useful lives by groups of property, plant and equipment (except for those depreciated under production method) are listed below:

Group of property, plant and equipment	Useful life
Buildings and constructions	10 - 50 years
Plant and machinery	2 - 20 years
Equipment	2 - 20 years
Motor vehicles	5 - 12 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.2.5. Assets under construction

Assets under construction are reported at their cost of construction including costs charged by third parties and the capitalisation of the Group's material costs incurred. No depreciation is charged on assets during construction. Upon the completion, the Group assess whether there is any indication that an asset may be impaired. If any such indication exists, the Group performs impairment testing as described in note 2.2.20. In case no indication exists that the asset may be impaired, all accumulated costs of the asset are transferred to the relevant fixed asset category and depreciated at applicable rates from the time the asset is completed and ready for use.

2.2.6. Intangible assets

(a) Recognition and measurement of intangible assets

Intangible assets are accounted at for historical cost less accumulated amortization and accumulated impairment losses, except the customer list which is initially carried at fair value and subsequently ammortised.

The Group recognizes an item as an intangible asset, if it meets the following criteria for recognition: it is probable that the Group will receive future economic benefits associated with the asset and costs of the asset can be reasonably estimated.

The Group identifies the following types of intangible assets:

- Computer software licenses;
- Trademarks;
- The Customer list.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specialised software.

Trademarks are shown at historical cost.

The Customer list was initially measured at fair value at the date of revaluation obtained by using the estimates of the independent valuers.

An intangible asset is derecognized at disposal, or when the Group no longer expects receipt from this asset of any economic benefits. The profit from cancellation or disposal is defined by the difference between net proceeds on the sale and the carrying value of intangible assets. If the intangible asset is exchanged for a similar asset, the value of the acquired asset is equal to the value of the disposed asset.



(b) Amortization and useful life

Costs of computer software licenses are amortized over their estimated useful lives using the straight-line method (7 years). The amortization expense is included within Administrative expenses in the Consolidated Income Statement.

Trademarks have finite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives (20 years). The amortization expense is included within Selling & Distribution expenses in the Consolidated Income Statement.

Amortization is calculated using the straight-line method to allocate the cost of the customer list over its estimated useful lives (20 years). The amortization expense is included in Other operating expenses in the Consolidated Income Statement.

(c) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquirer's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date

through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 "Financial Instruments: Recognition and Measurement: Eligible Hedged Items" either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Goodwill is not amortized but is subject to testing for impairment as at the reporting date or more frequently, if events or changes in circumstances indicate the possibility of reducing its usefulness. At the acquisition date, goodwill is allocated to each asset or group of assets that generate cash, and benefits from which are expected to be received upon Consolidation. The amount of impairment is determined by assessing the recoverable amount, which may be obtained for a cash generating asset (group of cash generating assets) to which goodwill relates. Where the recoverable amount is less than the book value of cash generating asset (group of cash generating assets), impairment is recognized.

2.2.7. Financial assets

The Group classifies its financial assets as: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets. Management determines the classification of financial assets



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at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category comprises only “in-the-money” derivatives. They are carried at the reporting date at fair value with changes in fair value recognised in the income statement. The Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

(ii) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables), but also incorporate other types of contractual monetary asset. They are carried at amortized cost using the effective interest method less any impairment.

From time to time, the Group may renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate.

The Group has not classified any of its financial assets as held to maturity.

(iii) Available-for-sale financial assets

The non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group’s investments in entities not qualifying as subsidiaries as well as investment certificates and are carried at cost.

(a) Initial recognition

Financial assets at fair value through profit and loss are initially recorded at fair value. All other financial assets are initially recorded at fair value plus transaction costs. Fair value at initial

recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognized on the settlement date with the change in value between the commitment date and settlement date not recognized for assets carried at cost or amortized cost; recognized in the income statement for trading investments; and recognized in equity for assets classified as available-for-sale.

(b) Fair value estimation principles

Fair value of financial instruments is based at their market value, established at the reporting date, less transaction costs. If market value is not available, fair value of the instrument is determined by means of pricing and discounted cash flow models use.

If a discounted cash flow model is applied, the determination of future cash flows is based on optimal management estimations and discounting rate is market rate for similar financial instruments predominated as at reporting date. If the price model is used entering figures are based on average market data predominated as at reporting date.

(c) Subsequent measurement

Subsequent to initial recognition all financial assets at fair value through profit or loss and all available-for-sale instruments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.



Loans and receivables are measured at amortized cost less impairment losses. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(d) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(e) Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

2.2.8. Financial liabilities

The Group classifies its financial liabilities into categories depending on the purpose for which the liability was acquired. The Group has not classified any of its liabilities at fair value through profit and loss.

Financial liabilities held at amortized cost include the following items:

Trade payables and other short-term monetary liabilities, which are recognised at amortized cost.

Bank borrowings, overdrafts, promissory notes and bonds issued by the Group are initially carried at fair value, being the the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and interest payable on redemption, as well as any interest or coupon payable while the liability is outstanding.



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(a) Initial recognition

Financial liabilities are initially recognized at fair value, adjusted in case of borrowings for directly attributable transaction expenses.

(b) Subsequent measurement

Trade and other accounts payable initially recognized at fair value, are subsequently accounted for at amortized cost at effective interest rate method.

Borrowings, liabilities initially recognized at fair value less transaction costs, are subsequently measured at amortized cost; any difference between amount of received resources and sum of repayment is represented as interest cost the effective interest rate method during the period, when borrowings were received.

(c) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2.2.9. Share capital

Ordinary shares are classified as share capital. The difference between fair value of consideration received and nominal value of issued share capital is charged to share premium.

2.2.10. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured simultaneously with an increase in asset or decrease in liabilities, which causes the increase in shareholders' equity (excluding the capital increase through contributions from members of the enterprise), provided that the amount of income can be reasonably estimated. Revenue reflected in the amount of the fair value of assets received.

Revenue is the amount of cash or cash equivalents received

or receivable. However, in case of delay in receipt of cash or cash equivalents, the fair value of the consideration may be less than received or expected to be received nominal amount of cash. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. Revenue (proceeds) from sale of products (goods, works and services) is not corrected by an amount of related doubtful and uncollectible receivables. The amount of such debt is recognized as expenses of the Group.

Revenue comprises the invoiced value of sales of goods and services net of value added tax, rebates and discounts after eliminating sales within the Group. Revenues and expenses are recognised on an accruals basis.

(a) Revenue from sale of goods (products)

Revenue from the sale of goods (products) is recognized when all the following conditions are satisfied:

- The significant risks and rewards of ownership of the goods have passed to the buyer;
- The Group is no longer involved in the management to the extent that is usually associated with ownership, and has no control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(b) Revenue from rendering of services

The revenue from rendering of services is recognized when all the following conditions are satisfied:

- the amount of revenue can be reliably measured;
- inflow of economic benefits related to the transaction is possible;
- reliable measurement of stage of transaction completeness at



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- the balance sheet is possible;
- there is a possibility for reliable measuring of cost, applied for transaction carrying out and cost, which are required for its completing.

2.2.11. Expenses recognition

Expenses are recognized by the Group when the following conditions are met: the amount of expenses can be reliably measured, it is probable that future economic benefits, relating to asset decrease or liability increase.

Expenses which can not be related directly to gain of a certain period, are shown as a part of expenses of the period they were incurred in.

If an asset provides economic benefits receiving during several reporting periods, expenses are calculated by allocating its value on a systematic basis over respective reporting periods.

Writing off of deferred expenses is made on a straight-line basis within periods, which they accordingly relate to, during which the receipt of economic benefits receiving is expected.

Expenses which were incurred in the reporting period but relate to production of semi-finished products which will be further processed to finished goods and sold in future reporting periods, are accounted for in the current period in the item "Work-in-progress", included within "Inventories" of the Consolidated statement of financial position.

2.2.12. Financial expenses

Interest expenses and other costs on borrowings to finance construction or production of qualifying assets are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are

expensed. Net financial expenses are recorded in the Consolidated statement of comprehensive income as a separate line item "Financial income/(expenses), net."

2.2.13. Value added tax

VAT is levied at two rates: 20% on Ukrainian domestic sales and imports of goods, works and services and 0% on export of goods and provision of works or services to be used outside Ukraine.

VAT output equals the total amount of VAT collected within a reporting period, and arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer. VAT input is the amount that a taxpayer is entitled to offset against his VAT liability in the reporting period. Rights to VAT input arise on the earlier of the date of payment to the supplier or the date goods are received.



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2.2.14. Tax

Taxation has been provided for in the financial statements in accordance with relevant legislation currently in force. The charge for taxation in the Income Statement for the year comprises current tax and changes in deferred tax.

Current tax is the amount of income tax payable (recoverable) in respect of taxable profit (tax loss) for the period determined in accordance with rules established by the tax authorities in respect of which income tax shall be paid (refundable).

Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and laws that have been enacted, or substantively enacted, by the reporting date.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except in situations where the deferred tax arising on initial recognition of goodwill or of an asset or liability in a transaction that is not a deal to merge companies and which, at the time of its commission, has no effect on accounting or taxable profit or loss.

Assessment of deferred tax liabilities and deferred tax assets reflects the tax consequences that would arise depending on the ways in which the Group assumes the reporting date of realization or settlement of the carrying value of its assets or liabilities.

A deferred tax asset is recognized only to the extent to which there is a substantial probability that future taxable profit, which may be reduced by the amount of deductible temporary differences, will be received. Deferred tax assets and liabilities are measured at tax rates, the use of which is expected in the period of the asset or liability is settled, based on the provisions of the

legislation enacted, or declared (and practically adopted) at that date.

Deferred income taxes are recognized for all temporary differences associated with investments in subsidiaries and associated companies and joint activities, except in cases where the Group controls the timing of the reversal of temporary differences, and where there is a significant probability that the temporary difference will not be reduced in the foreseeable future.

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces it to the extent to which it is no longer the probability that it will be sufficient taxable profits, which allows to realize the benefits of part or all of this deferred tax asset. Any such reduction is restored to the extent to which there is the likelihood that sufficient taxable profit.

Deferred tax assets and liabilities are not discounted.

2.2.15. Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period. Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received. Where fair value of goods and services received from persons other than employees is difficult to identify, the fair value of the instruments granted is charged to the income statement over the vesting period. The fair value of options to be expensed is determined on the basis of adjusted Black-Scholes model as set out in note 29.



2.2.16. Short-term employee benefits

Short-term employee benefits are recognised in the period in which an employee has rendered service to the Group. The Group recognises the undiscounted amount of short-term employee benefits a liability (accrued expense), after deducting any amount already paid.

2.2.17. Pension costs

The Group contributes to the Ukrainian mandatory state pension scheme, social insurance and employment funds in respect of its employees. The Group's pension scheme contributions are expensed as incurred and are included in staff costs. The Group doesn't operate any other pension schemes.

2.2.18. Share issue costs

All qualifying transaction costs in respect of the issue of shares are accounted for as a deduction from share premium, net of any related tax deduction. Qualifying transaction costs include costs of preparing the prospectus, accounting, tax and legal expenses, underwriting fees and valuation fees in respect of the shares and of other assets.

2.2.19. Leases

Lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Leases other than finance leases are classified as operating leases.

(a) Group as a lessee

Operating lease expenses are recognized as expenses of the period to which they relate, on a straight-line basis over the lease period.

(b) Group as a lessor

Operating lease income is recognized in "Revenue" as income of the period to which it relates, over the lease term on a systematic and rational basis.

2.2.20. Impairment of assets

In respect of all assets, except for inventories, assets resulting from fees to employees, financial assets, assets held for trading, the Group conducts the following procedures ensuring accounting for these assets at the amount, not exceeding their recoverable amount:

- at each reporting date the condition of these assets is analyzed for impairment.
- in case any impairment indicators exist, the amount of expected recovery of such asset is calculated to determine the amount of losses from impairment, if any. If it is impossible to determine the amount of losses from impairment of a separate asset, the Group determines the amount of estimated impairment of the cash-generating unit, to which the asset belongs.

The amount of expected recovery is the higher of two estimates: net selling price and value in use of asset. In estimating value in use of asset, estimated future cash flows are discounted to their current value using a pre-tax discount rate that reflects current market estimates of time value of money and risks related to the asset.

If according to estimates the amount of expected recovery of assets (or a cash-generating unit) is less than its book value, the book value of asset (or a cash-generating unit) is reduced to the amount of expected recovery. Losses from impairment are recognized as expenses directly in the Consolidated statement of comprehensive income.



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2.2.21. Contingent liabilities and assets

Contingent liabilities are potential liabilities of the Group arising from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more future events, which are not under the complete control of the Group, or current obligations resulting from past events are not recognized in the financial reporting in connection with the fact that the Group does not consider an outflow of resources embodying economic benefits, and required to settle liabilities as probable, or the value of liabilities can not be reliably determined.

The Group does not recognize contingent liabilities in the financial statements. The Group discloses information about contingent liabilities in the notes to the financial statements except when the probability of outflow of resources required to settle the obligation, is unlikely.

Contingent assets are not recognized in the Consolidated financial statements, but disclosed in the Notes where there is a sufficient probability of future economic benefits.

2.2.22. Related parties

For the purposes of these financial statements according to IFRS, parties are considered to be related if one of parties has a possibility to control or considerably influence the operational and financial decisions of another company, which is defined in IAS 24 “Related Party Disclosures”.

While considering any relationship which can be defined as related party transactions it is necessary to take into consideration the substance of the operation not only its legal form.

The Group classifies the related parties according to existing criteria in the following categories:

- a) companies that directly or indirectly through one or more intermediaries, exercise control over the Group, are controlled by it, or together with it are under common control (this includes holding companies, subsidiaries and fellow subsidiaries of the parent company);
- b) associates are companies whose activities are significantly influenced by the Group, but are neither subsidiaries, nor joint ventures of the investor;
- c) individuals, directly or indirectly holding ordinary shares that give them a possibility to significantly influence the Group’s activities;
- d) key management personnel are persons having authority and responsibility for planning, managing and controlling the activities of the Group, including directors and senior officials (as well as the non-executive director and close relatives of these individuals);
- e) companies, large blocks of shares with voting rights of which are owned directly or indirectly by any person described in paragraphs (c) or (d), or a person influenced significantly by such persons. This includes enterprises owned by directors or major shareholders of the Group, and companies which have a common key management member with the Group.



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2.2.23. Dividends

Equity dividends are recognised in the Consolidated financial statements when they become legally payable. In the case of interim dividends are recognised when they are paid. In the case of final dividends, this is when approved by the shareholders at the AGM.



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3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's Consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

(a) Estimates of fair value of property, plant and equipment based on revaluation

The Group is required, periodically as determined by the directors, to conduct revaluations of its property, plant and equipment. Such revaluations are conducted by independent valuers who employ the valuation methods in accordance with International Valuation Standards such as cost method, comparison (market) method

and revenue (income) method.

(b) Useful lives of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are amortized or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long life of certain assets, changes to the estimates used can result in significant variations in the carrying value. Further information is contained in notes 14 and 15.

(c) Impairment of goodwill

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary. Further information is contained in note 15.

(d) Inventory

The Group reviews the net realisable value of, and demand for, its inventory on a quarterly basis to ensure recorded inventory is stated at the lower of cost or net realisable value. Factors that



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could impact estimated demand and selling prices are the timing and success of future technological innovations, competitor actions, supplier prices and economic trends. Further information is contained in note 17.

(e) Legal proceedings

In accordance with IFRS the Group only recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Realisation of any contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position.

Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control. The Group reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Group's management as to how it will respond to the litigation, claim or assessment.

(f) Income taxes

The Group is subject to income tax in several jurisdictions and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, the company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when,

despite the company's belief that its tax return positions are supportable, the company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made. Further information is contained in notes 13 and 16.

(g) Quality claims

The Group supplies the consumers and industrial customers in Ukraine with dairy products manufactured in accordance with the current laws, food safety standards and technical requirements of the relevant Ukrainian authorities. The Group voluntarily applies non-domestic standards – ISO and HASSP – to some of the Group's operations. For the industrial customers both domestically and outside of Ukraine, the food products are manufactured to the technical specifications agreed with the buyers in advance of the sale. In instances where the quality criteria and/or technical specifications are not met or the delivery of products are made close to expiry date, a quality claim may arise and the corresponding contingent liability may be disclosed in the notes to the financial statements. Realisation of any such contingent liabilities not currently recognised or disclosed in the financial statements could have a material effect on the Group's financial position. Application of these accounting principles to quality claims requires the Group's management to make determinations about the future matters that may, at the time of determination, be beyond management's control. Among the factors considered in making decisions on quality claims provisions are: the nature of the claim, the quantifiable variances in quality giving rise to a claim, the potential loss from satisfying the claim and any decision of the Group's management as to how it will respond to the claim.



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4. ADOPTION OF NEW AND REVISED IFRS

4.1. Standards and Interpretations adopted by the EU

((a) New and amended standard and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the Group (although they may affect the accounting for future transactions and events))

IFRS 2: Share-based Payments - Amendment; Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010).

IAS 32: Financial Instruments: Presentation - Amendment; Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010).

IAS 7: Financial Instruments; Disclosures - Amendment; Disclosures - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011).

Improvements to IFRS (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 34, IFRIC 13) (effective date 1 January 2011)

4.2. Standards and Interpretations not adopted by the EU

IAS 12: Income Taxes - Amendment; Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012).

IFRS 9: Financial Instruments (effective 1 January 2015)

IFRS 10: Consolidated Financial Statements (effective 1 January 2013)

IAS 1: Presentation of financial statements - Amendment; Presentation of items of other comprehensive income (effective for annual periods beginning on or after 1 July 2012).

IAS 7: Financial Instruments - Disclosures - Amendment; Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013).

IAS 32: Financial Instruments - Presentation - Amendment; Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014).

The Group has not yet completed the expected impact of applying these standards and amendments.



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5. FINANCIAL RISK MANAGEMENT

The principal risks facing the Group's business are credit risk, liquidity risk and market risk, including fair value or cash flow interest-rate risk and foreign exchange risk. The main purpose of the Group's risk management programme is to evaluate, monitor and manage these risks and to minimise potential adverse effects on the Group's financial performance and shareholders. The Chief Financial Officer of the Group is in charge of risk management and introduction of all policies as approved by the Board of Directors. The Group's budget for 2012 incorporates the forecasted inflation rates. The Group considers that there are no material risks related to the inflation.

(a) Principal financial instruments The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade and other receivables
- Investments in unquoted equity securities in Ukraine
- loans issued
- cash and cash equivalents
- bank overdrafts
- promissory notes
- trade and other payables

	year ended 31 December 2011 £ '000	year ended 31 December 2010 £ '000
Financial assets		
Loans and receivables:		
- trade and other receivables (excluding non-financial assets)	5 487	4 874
- cash and cash equivalents	512	676
- loans issued	177	220
Available for sale investments		
- unquoted investments	169	89
	6 345	5 859
Financial liabilities		
Held at amortised cost:		
- long-term credits	3 844	-
- bank loans	3 261	2 842
- overdrafts	253	96
- trade and other payables (excluding non-financial liabilities)	2 374	1 079
	9 732	4 017



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(b) General objectives, policies and processes

The Group's overall risk management programme recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Group Chief Financial Officer (CFO) under policies approved by the Board of Directors. The Group CFO identifies and evaluates financial risks in close co-operation with the Group's operating units. The management board provides broad guidance and operating principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, and investing excess liquidity.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's finance function. The Board receives monthly updates from the Group CFO and Head of Internal Audit through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Group's internal operating auditors review the risk management policies and processes and report their findings to CEO and the Audit Committee, if and when necessary. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are laid out below.

(c) Credit risk

Credit risk is the risk that a counterparty will not be able to meet its obligations in full when due. Ukrproduct Group is mainly exposed to credit risk from credit sales to the customers in Ukraine. The Group manages its credit risk through the Group's risk assessment policy by evaluating each new customer before signing a contract using the following criteria: trading history and the strength of own balance sheet. The Group attempts to reduce

credit risk by conducting periodic review which includes obtaining external ratings and in certain cases bank references.

According to the Group's risk assessment policy, implemented locally, every new customer is appraised before entering contracts; trading history and the strength of the own balance sheet being the main indicators of creditworthiness. While starting the commercial relationship with the Group, a new customer is offered the terms that are substantially tighter than those for the existing customers and stipulate, as a rule, the cash-on-delivery payments terms and no-returns policy (quality-related claims exempted). If the relationship progresses successfully, the terms are gradually relaxed to fall in line with the Group's normal business practices and local specifics as required by the market. The Group's periodic review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the CEO. These limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis only.

Quantitative disclosures of the credit risk exposure in relation to Trade and other receivables, which are neither past due nor impaired, are made in note 18. The Group does not rate trade receivables by category or recoverability as the Group's historical default rates have been negligible in the past (less than 0.01%); essentially all trade receivables due to the Group had been recovered. In the future, the default rate on trade receivables overdue is expected to remain stable or even fall because in Ukraine the Group deals increasingly with the modern-format retailers whose creditworthiness is conducive to the payment discipline required by the Group.

Maximum exposure to the Trade and other receivables component of credit risk at the reporting date is the fair value of Trade and other receivables. There is no collateral held as security or other



credit enhancements.

The Group's credit controllers monitor the utilisation of the credit limits on a daily basis by customer and apply the delivery stop orders immediately if the individual limits are exceeded. The Group's procedure for recovery of the trade receivables past due includes the following steps:

- identification of the date and exact amount of the receivable past due, termination of all further deliveries and forwarding to the customer of the details of the amount due and the notice of the failure to pay - 3 days after the past due date
- delivery to the customer of the formal claim for the amount overdue and the visit of the representative of the commercial credit control department to the customer premises- 2 weeks thereafter
- filing a claim to the commercial court for repayment of the amount overdue and late payment fees - 2 weeks thereafter
- obtaining a court order for repayment of the amount due and collaboration with bailiff - 2 weeks thereafter.

As a result of the credit control and risk assessment procedures, the Group does not expect any significant losses from non-performance by the counterparties at the reporting date from any of the financial instruments currently employed in the business.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. The Group reviews the banks and financial institutions it deals with to ensure that standards of credit worthiness are maintained.

Maximum exposure to the cash and cash equivalents and deposits with banks and financial institutions component of credit risk at the reporting date is the fair value of the cash balances due from such banks and financial institutions. There is no collateral held as security or other credit enhancements.

The Group does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if it is sufficiently concentrated.

The Group is also exposed to a credit risk with regard to loans issued to third parties, related parties and employees. This risk is considered to be low and is managed according to the Group's risk assessment policy

(d) Liquidity risk

Liquidity risk is a function of the possible difficulty to be encountered in raising funds to meet financial obligations. The Group's policy is to ensure that it will always have sufficient cash to enable it to meet its obligations as they fall due by maintaining the minimum cash balances and agreed overdraft facilities. The Group also seeks to reduce liquidity risk by fixing interest rates and hence cash flows on substantially all of its borrowings.

The Group's operating divisions (plants) have different liquidity requirement profiles. As the Group's products have short- and long-cycled production, the liquidity risk of each plant is monitored and managed centrally by the Group Treasury function. Each plant has a cash facility based on cash budgets with the Group Treasury. The cash budgets are set locally and agreed by the CFO in advance. The main element of the Group's liquidity management is to reduce liquidity risk by fixing interest rates and hence cash flows on substantially all of its long-term borrowings

The CEO (and the Board, if requested) receives rolling quarterly cash flow projections on a monthly basis as well as information regarding the daily cash balances at each plant and overall. In the ordinary course of business, the Group relies on a combination of the available overdraft facilities and cash balances to fund the on-going liquidity needs. Capital expenditures are usually funded through longer-term bank loans. In case of the inadequate cash balances and the overdraft facilities close to the agreed ceilings,



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the Group is expected to revert to the emergency funding made available through temporary freeze to the current portion of capital spending, immediate operating cost reductions, postponement of payments to the third parties, and expansion of the overdraft ceilings. Although undesirable and never occurring in the past, such emergency funding is the last resort on which the Group may have to draw while ensuring the ongoing continuity of the business.

Maturities of the Group's financial instruments are disclosed further in the notes 18, 20, 21, 25 of these financial statements.

(e) Market risk

Market risk may arise from the Group's use of interest bearing, tradable and foreign currency financial instruments. Market risk comprises fair value interest rate risk, foreign exchange risk and commodity price risk and is further assessed below:

(i) Cash flow and fair value interest-rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises only from overdrafts, and is considered to be insignificant. The Group analyses the interest rate exposure on a monthly basis.

A sensitivity analysis is performed by applying various interest rate scenarios to the borrowings. A change of interest rate by 7 percentage points (being the maximum reasonably possible expectation of changes in interest rates) would cause a change in interest expense by GBP 258,452. (2010: GBP 200,000)

(ii) Foreign exchange risk

All of the Group's production facilities are located in Ukraine and the Board believes that the foreign exchange risk is minimal. The Group's international operations consist primarily of the export of milk powders to the various markets around the world. The primary currency for export sales is the US Dollar. The Group's

established corporate policy towards minimising the potential foreign exchange risk is to require the customers to pay for the export shipments of the skimmed milk powders in full and in advance. The Group's purchases of the raw milk, semi-processed materials and other components of the manufacturing cost are made in Ukraine and are entirely Hryvnia-denominated. All outstanding balances of trade payable by the Group are in Hryvnias. Currency analysis is provided in note 30

The Group has a long-term loan from European Bank of Reconstruction and Development (EBRD) for the purpose of modernization of Starokonstantinovskiy Molochnyi Zavod SC. This debt is denominated in Euro. Therefore, the Group is exposed to the exchange rate risk that lies in the possibility of Euro (EUR) appreciation against Hryvna (UAH). The sensitivity analysis shows that EUR appreciation against Hryvna by 5% would cause exchange rate loss of GBP 191,000.

(iii) Commodity price risk

The Ukraine economy has been characterized by high rates of inflation. The Group tends to experience inflation-driven increase in certain of its costs, including salaries and rents, fuel costs which are sensitive to rises in the general price level in Ukraine. In this situation, due to competitive pressures, it may not be able to raise the prices charged for products and services sufficiently to preserve operating margins. Accordingly, high rates of inflation in Ukraine could increase the Group's cost and decrease its operating margins.

The Group controls the prices for branded products through timely changes of sales prices according to the market development and competition.

The Group is also exposed to commodity price risk for skimmed milk powder (SMP). The price for this product is determined by the world and domestic market. The profitability of skimmed milk powder was adversely affected by higher raw milk prices and excess stock of SMP in Ukraine, which resulted in an unexpected



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price decrease on the domestic market.

A 10% change in the SMP prices would lead to the change in Gross Profit of GBP 374,378 in 2012. However, in 2012'Q2 the first stage of modernization project of Starokonstantinovskiy Molochniy Zavod SC financed by EBRD will be completed and will allow to reduce the cost of SMP production and improve its quality. Also, there are alternative ways of using the proteins such as sale of skimmed milk and production of hard cheese. The Group takes all measures to improve the profit from protein products.

(f) Operational risk

Operational risk is a risk arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can damage goodwill, have legal consequences or lead to financial losses. The Group can not expect that all operational risks have been eliminated, but with the help of control system and by monitoring the reaction to potential risks, the Group may manage such risks. The control system provides an effective separation of duties, access rights, approval and verification, personnel training, and valuation procedures.

6. CAPITAL MANAGEMENT POLICIES

The Group's definition of the capital is ordinary share capital, share premium, accumulated retained earnings and other equity reserves. The Directors view their role as that of corporate guardians responsible for preservation and growth of the capital, as well as for generation of the adequate returns to shareholders.

The Group's objectives when maintaining and growing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders,

- to identify the appropriate mix of debt, equity and partner sharing opportunities in order to balance the highest returns to shareholders overall with the most advantageous timing of investment flows,
- to provide an adequate return to shareholders by delivering the products in demand by the customers at prices commensurate with the level of risk and expectations of shareholders.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the current trading environment. The Group's core assets consist predominantly of the property, plant and equipment – the resources that have proven their ability to withstand the competitive erosion and inflationary pressure.

In order to maintain or adjust the capital structure, the Group may issue new shares, adjust the amount of dividends paid to shareholders, repay the debt, return capital to shareholders or sell assets to improve the cash position. Historically, the first three methods were used to achieve and support the desired capital structure. The Group monitors capital on the basis of the net debt to equity ratio (D/E ratio). This ratio is calculated as net debt to shareholder equity. Net debt is calculated as total debt (as shown in the balance sheet) less cash and cash equivalents.

Traditionally, the Group's conservative strategy was to maintain the D/E ratio at 0.6 (60%) maximum. The Directors believe that for the Group, as an operating company and a public entity, the maintenance of the prudent debt policy is crucial in preserving the capital of the business. Excessive leverage – defined by the Group as D/E ratio in excess of 0.6 – could be justified only under exceptional circumstances and requires the full Board's consent.



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The D/E ratios at 31 December 2011 and at 31 December 2010 were as follows.

	year ended 31 December 2011	year ended 31 December 2010
	£ '000	£ '000
Total debt	7 358	2 938
Less: Cash and cash equivalents	512	676
Net debt	6 846	2 262
Total equity	19 317	18 987
D/E ratio	35,4%	11,9%

7. SEGMENT INFORMATION

At 31 December 2011, the Group was organised internationally into three main business segments:

- 1) Branded products – processed cheese, hard cheese, packaged butter and spreads
- 2) Non-branded product – skimmed milk powder, other skimmed milk products
- 3) Distribution services – resale of third-party goods and provision of transport services.

The Non-branded product category besides its major part (the skimmed milk powder) also includes the skimmed milk and other skimmed milk products due to their increased sales volumes. Earlier the sales of skimmed milk and other skimmed milk products were reflected in “Other” article of revenue.



The segment results for the year ended 31 December 2011 are as follows:

	Branded products £ '000	Non-branded products £ '000	Distribution services £ '000	Un-allocated £ '000	Total £ '000
Sales, Total	76 623	11 497	18 641	-	106 762
Sales to internal customers	41 929	4 027	10 283	-	56 238
Sales to external customers	34 694	7 471	8 359	-	50 524
Gross profit	6 287	(457)	969	-	6 799
Administrative expenses	(1 825)	(286)	(265)	(479)	(2 855)
Selling and distribution expenses	(2 377)	(77)	(296)	(39)	(2 790)
Other operating expenses	(93)	-	-	(90)	(183)
Profit from operations	1 992	(821)	408	(608)	971
Finance expenses, net	-	-	-	(428)	(428)
Loss from exchange differences	-	-	-	288	288
Profit before taxation	1 992	(821)	408	(748)	831
Taxation	-	-	-	(431)	(431)
Profit for the year	1 992	(821)	408	(1 179)	400
Segment assets	17 748	2 384	3 445	-	23 577
Unallocated corporate assets	-	-	-	7 475	7 475
Unallocated deferred tax	-	-	-	227	227
Consolidated total assets	17 748	2 384	3 445	7 702	31 279
Segment liabilities	1 885	-	646	-	2 531
Unallocated corporate liabilities	-	-	-	8 550	8 550
Unallocated deferred tax	-	-	-	881	881
Consolidated total liabilities	1 885	-	646	9 431	11 962
Other segment information:					
Depreciation and amortisation	620	159	46	66	891
Capital expenditure	1 068	2 523	78	93	3 762



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The unallocated corporate liabilities represent bank loans, overdrafts and accruals.

The basis of pricing of the inter-segment transfers is the current market price at which the goods could be bought on the spot market externally but not lower than the full production costs plus the accompanying transport expenses.

The Group has increased its export activity through selling additional products (food and non-food products). These products are purchased from third parties and are reflected in the "Distribution services" line. In 2011 the additional revenue and gross profit from this activity made up GBP 2.68 mln and GBP 40k respectively without additional working capital from the Group. The working capital as at 31 December, 2011 on these export transactions stood at minus GBP 150k.

The segment results for the year ended 31 December 2010 are as follows:

	Branded products	Non-branded products	Distribution services	Un-allocated	Total
	£ '000	£ '000	£ '000	£ '000	£ '000
Sales, Total	81 331	18 325	11 825	-	111 481
Sales to internal customers	49 503	8 412	8 546	-	66 461
Sales to external customers	31 828	9 913	3 279	-	45 020
Gross profit	6 033	693	428	-	7 154
Administrative expenses	(1 942)	(272)	(91)	(594)	(2 899)
Selling and distribution expenses	(1 954)	(61)	(105)	(64)	(2 184)
Other operating expenses	(125)	-	-	(377)	(502)
Profit from operations	2 012	360	232	(1 035)	1 569
Finance expenses, net	-	-	-	(367)	(367)
Loss from exchange differences	-	-	-	(5)	(5)
Profit before taxation	2 012	360	232	(1 407)	1 197
Taxation	-	-	-	(103)	(103)
Profit for the year	2 012	360	232	(1 510)	1 094
Segment assets	15 209	2 662	612	-	18 483
Unallocated corporate assets	-	-	-	6 449	6 449
Unallocated deferred tax	-	-	-	248	248
Consolidated total assets	15 209	2 662	612	6 697	25 180
Segment liabilities	1 027	79	147	-	1 253
Unallocated corporate liabilities	-	-	-	3 506	3 506
Unallocated deferred tax	-	-	-	1 434	1 434
Consolidated total liabilities	1 027	79	147	4 940	6 193
Other segment information:					
Depreciation and amortisation	679	288	16	85	1 068
Capital expenditure	252	107	32	80	471

The unallocated corporate liabilities represent bank loans, overdrafts and accruals.

The basis of pricing of the inter-segment transfers is the current market price at which the goods could be bought on the spot market externally but not lower than the full production costs plus the accompanying transport expenses.



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Secondary reporting format - geographical segments:

Sales by country (consignees)	year ended 31 December 2011 £ '000	Sales by country (consignees)	year ended 31 December 2010 £ '000
Ukraine	42 302	Ukraine	38 040
Holland	1 900	Singapore	2 377
Russia	1 659	Holland	1 529
Estonia	992	Germany	1 058
Azerbaijan	752	Turkey	676
Greece	514	Azerbaijan	383
Other countries	2 405	Other countries	957
Total	50 524	Total	45 020

The majority of the Group's assets and liabilities are in Ukraine. Sales to the countries in Europe represent sales to international traders of milk powders located in Europe. These traders consequently resell the milk powders to other countries worldwide.

The Group has no customers volume of sales to which exceeds 10% from the total amount.



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8. REVENUE

For the years ended 31 December 2011 and 31 December 2010, sales revenue was presented as follows:

	year ended 31 December 2011 £ '000	year ended 31 December 2010 £ '000
General revenue	51 461	45 721
Branded (including bonuses)	35 632	32 529
Charge of bonuses	(937)	(701)
Branded (excluding bonuses)	34 695	31 828
Non-branded products	7 471	9 913
Distribution services	8 358	3 279
Total revenue (excluding bonuses)	50 524	45 020

Bonuses are compensation granted to the Group's main customers within its distribution network.

Bonuses are accounted for based on a fixed percentage of the product sold by customers who comprise retail networks and distributors. Cash compensation is paid on a periodic basis during the year.



9. EXPENSES BY NATURE

For the years ended 31 December 2011 and 31 December 2010, items of expenses were presented as follows:

	year ended 31 December 2011 £ '000	year ended 31 December 2010 £ '000
Cost of sales	(43 725)	(37 866)
Including:		
Raw materials and consumables used, cost of goods sold, manufacture overheads etc.	(40 205)	(34 985)
Wages and salaries, social security costs (Note 12)	(2 812)	(1 968)
Depreciation (Note 11)	(708)	(913)
Administrative exp	(2 855)	(2 899)
Including:		
Wages and salaries, social security costs (Note 12)	(1 547)	(1 348)
Lease and current repair and maintenance	(222)	(286)
PR, nominated broker, secretary, legal services etc.	(251)	(340)
Bank service	(129)	(175)
Security	(166)	(159)
Taxes and compulsory payments	(57)	(122)
Communication	(123)	(121)
Office expenses	(76)	(74)
Audit fees	(62)	(67)
Amortization and depreciation (Note 11)	(69)	(58)
Other	(153)	(149)
Selling and distribution	(2 790)	(2 184)
Including:		
Wages and salaries, social security costs (Note 12)	(1 470)	(1 105)
Delivery costs	(569)	(267)
Lease and current repair and maintenance	(368)	(469)
Promotion	(141)	(201)
Veterinary certificates, medical examination, permits	(84)	(48)
Amortization and depreciation (Note 11)	(54)	(48)
Other	(104)	(46)
Other operating exp	(183)	(502)
Including:		
Profit from sale of non-current assets	286	-
Impairment of trade receivables	(51)	(128)
Impairment of assets (as a result of revaluation)	(42)	(37)
Amortization and depreciation (Note 11)	(59)	(49)
Wages and salaries, social security costs (Note 12)	(20)	(20)
Other	(297)	(268)



10. FINANCIAL INCOME/(EXPENSES), NET

For the years ended 31 December 2011 and 31 December 2010, financial income/(expenses) were presented as follows:

	year ended 31 December 2011 £ '000	year ended 31 December 2010 £ '000
Finance income		
Interest income on bank deposit	19	20
Total interest income	19	20
Finance expense		
Interest expense on bank loans	(447)	(387)
Total finance expense	(447)	(387)
Net finance expense recognised in income statement	(428)	(367)

11. AMORTIZATION AND DEPRECIATION

For the years ended 31 December 2011 and 31 December 2010, amortization and depreciation were presented as follows:

	year ended 31 December 2011 £ '000	year ended 31 December 2010 £ '000
Cost of sales	(708)	(913)
Administrative expenses	(69)	(58)
Selling and distribution expenses	(54)	(48)
Other operating expenses	(59)	(49)
Total amortization and depreciation	(890)	(1 068)



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12. EMPLOYEE BENEFIT EXPENSE

For the years ended 31 December 2011 and 31 December 2010, employee benefit expense were presented as follows:

	year ended 31 December 2011 £ '000	year ended 31 December 2010 £ '000
Wages and salaries (including key management personnel)	(4 378)	(3 325)
Social security costs	(1 471)	(1 116)
	(5 849)	(4 441)
Average number of employees	1 751	1 857

	year ended 31 December 2011 £ '000	year ended 31 December 2010 £ '000
Wages and salaries of operating personnel	(2 812)	(1 968)
Wages and salaries of administrative personnel	(1 547)	(1 348)
Wages and salaries of distribution personnel	(1 470)	(1 105)
Wages and salaries of personnel related to other operating expenses	(20)	(20)
	(5 849)	(4 441)

Wages and salaries of key management personnel:

For the year ended 31 December 2011, remuneration of the Group's key management personnel amounted to GBP 252,000 (2010: GBP 250,000).

Key management personnel received only short term benefits during the years ended 31 December 2011 and 31 December 2010.

The key management personnel are those persons remunerated by the Group who are members of the Board of Directors of the Company (Ukrproduct Group Ltd) and Senior Management.



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13. INCOME TAX EXPENSES

For the years ended 31 December 2011 and 31 December 2010, income tax expenses were presented as follows:

	year ended 31 December 2011 £ '000	year ended 31 December 2010 £ '000
Current tax charge - Ukraine	545	82
Current tax charge - non-Ukraine	10	38
Deferred tax relating to the origination and reversal of temporary differences	(124)	(17)
Total income tax expenses	431	103

Differences in treatment of certain elements of financial statements by IFRS and Ukrainian statutory taxation regulations give rise to temporary differences. The tax effect of the movement on these temporary differences is recognised at the rate of 23% (2010: 25%).

The numerical reconciliation between tax charge and the product of accounting profit multiplied by the applicable tax rate(s) is provided in the following table.

	year ended 31 December 2011 £ '000	year ended 31 December 2010 £ '000
Profit before tax:		
Ukraine	1 048	1 382
Cyprus	97	1
Other (BVI, Jersey, loss before tax in Ukraine)	(314)	(186)
Profit before tax, total	831	1 197
Tax calculated at domestic tax rates applicable to profits in the relevant countries		
Ukraine (2011: 23%, 2010: 25%)	241	346
Cyprus (10%)	10	0,1
BVI, Jersey (0%)	-	-
	251	346
Tax calculated at domestic tax rates applicable to net income not subject to tax and expenses not deductible for tax purposes		
Ukraine	180	(281)
Cyprus	-	38
BVI, Jersey	-	-
	180	(243)
Tax charge		
Ukraine	421	65
Cyprus	10	38
BVI, Jersey	-	-
	431	103
The weighted average applicable tax rate		
Ukraine	23%	25%
Cyprus	10%	10%
BVI, Jersey	Nil	Nil
	30%	14%



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There are a number of laws related to various taxes imposed by both central and regional governmental authorities. Although laws related to these taxes have not been in force for significant periods, the practice of taxation and implementation of regulations are well established, documented with a sufficient degree of clarity and adhered to by the taxpayers. Nevertheless, there remain certain risks in relation to the Ukrainian tax system: few court precedents with regard to tax related issues exist; different opinions regarding legal interpretation may arise both among and within government ministries and regulatory agencies; tax compliance practice is subject to review and investigation by a number of authorities with overlapping responsibilities.

Generally, tax declarations remain subject to inspection for an indefinite period. In practice, however, the risk of retroactive tax assessments and penalty charges decreases significantly after three years. The fact that a year has been reviewed does not preclude the Ukrainian tax service performing a subsequent inspection of that year.

The Group's management believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains that those relevant authorities could take different positions with regard to interpretive issues.

During the period under review, the Ukrainian companies within the Group paid royalties and interest charge on the outstanding credits and bonds to another Group company – Linkstar Limited (Cyprus). These payments were not taxable in Ukraine due to the existing Double Taxation Treaty between Ukraine and Cyprus.

The Ukrainian government has adopted a new Tax Code. Effective April 1, 2011, expenses incurred by legal entities for the purchase of goods and services from private entrepreneurs, such as small wholesale customers of Ukrproduct, who pay a unified tax (a lump sum), will not be deductible for the purpose of calculating corporate profit tax.

14. PROPERTY, PLANT AND EQUIPMENT

In accordance with IAS 16 "Property, Plant and Equipment", the Group carries out assets impairment tests with further revaluations, if necessary, on a regular basis. As at 31 December 2011, an asset impairment test was conducted and showed that the carrying value of assets remained appropriate.

As of January 1, 2011 the Group applied to all production equipment the production method of depreciation.

The reason for the change is as follows:

- The production method will ensure that the unit cost reflects the reality.
- There is no obsolescence of the equipment

Fixed assets with a net book value of GBP 9,598,486 at 31 December 2011 (2010: GBP 9,036,176) were pledged as collateral for loans.



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As at 31 December 2011 and 31 December 2010 property, plant and equipment were presented as follows

	Assets under Construction	Land and Buildings	Plant and Machinery	incl. assets under production method of depreciation	Vehicles	Instruments, tools and other equipment	incl. assets under production method of depreciation	Total
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Cost or valuation								
At 1 January 2010	473	6 627	4 772	2 699	2 087	1 037	420	14 996
Additions	471	-	1	-	-	45	-	517
Gain on revaluation	164	1 596	1 362	812	1 612	306	140	5 040
Transfers to/from AUC	(418)	51	101	9	166	100	4	-
Exclusion from Group	-	-	-	-	-	-	-	-
Disposals	(92)	(151)	41	-	(24)	(209)	-	(435)
Exchange differences on translation to the presentation currency	14	201	109	80	47	32	13	403
At 31 December 2010	612	8 324	6 386	3 600	3 888	1 311	577	20 521
Accumulated depreciation								
At 1 January 2010	-	2 097	2 496	1 149	1 421	448	9	6 462
Depreciation charge	-	295	323	212	230	144	50	992
Gain on revaluation	29	246	171	103	473	46	5	965
Exclusion from Group	-	-	-	-	-	-	-	-
Disposals	-	(22)	(24)	-	(23)	(232)	-	(301)
Exchange differences on translation to the presentation currency	-	60	40	35	26	14	1	140
At 31 December 2010	29	2 676	3 006	1 499	2 127	420	65	8 258
Cost or valuation								
At 1 January 2011	612	8 324	6 386	3 600	3 888	1 311	577	20 521
Additions	3 762	-	-	-	-	61	-	3 823
Acquisition of subsidiary	2	288	2 088	1 826	11	29	14	2 418
Transfers to/from AUC	(512)	401	63	-	45	3	-	-
Exclusion from Group	(45)	(2)	(2)	-	-	(2)	-	(51)



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	Assets under Construction	Land and Buildings	Plant and Machinery	incl. assets under production method of depreciation	Vehicles	Instruments, tools and other equipment	incl. assets under production method of depreciation	Total
Disposals	(383)	(121)	(17)	-	(59)	32	-	(548)
Exchange differences on translation to the presentation currency	104	1	(19)	60	(35)	(37)	-	14
At 31 December 2011	3 540	8 891	8 499	5 486	3 850	1 397	591	26 177
Accumulated depreciation								
At 1 January 2011	29	2 676	3 006	1 499	2 127	420	65	8 258
Depreciation charge	-	273	248	173	148	154	64	823
Acquisition of subsidiary	-	11	65	39	5	8	2	89
Exclusion from Group	-	-	-	-	-	-	-	-
Disposals	-	(17)	(102)	-	(37)	(30)	-	(186)
Exchange differences on translation to the presentation currency	-	5	12	5	-	3	3	20
At 31 December 2011	29	2 948	3 229	1 716	2 243	555	134	9 004
Net book amount at 31 December 2011	3 511	5 943	5 270	3 770	1 607	842	457	17 173
Net book amount at 31 December 2010	583	5 648	3 380	2 101	1 761	891	512	12 263
Net book amount at 31 December 2009	473	4 530	2 276	1 271	1 255	269	269	8 534



15. INTANGIBLE ASSETS

As at the reporting dates intangible assets were presented as follows:

	Computer software £ '000	Trade marks £ '000	Customer list £ '000	Goodwill £ '000	Total £ '000
Cost or valuation					
At 1 January 2010	42	456	752	104	1 354
Additions	3	-	-	-	3
Disposals	(6)	-	-	-	(6)
Exchange differences on translation to the presentation currency	1	12	-	-	13
At 31 December 2010	40	468	752	104	1 364
Accumulated amortisation					
At 1 January 2010	21	111	157	-	289
Amortisation charge for the year	10	25	41	-	76
Disposals	(5)	-	-	-	(5)
Exchange differences on translation to the presentation currency	1	4	(1)	-	4
At 31 December 2010	27	140	197	-	364
Cost or valuation					
At 1 January 2011	40	468	752	104	1 364
Additions	8	-	-	-	8
Acquisition of subsidiary	-	-	-	157	157
Disposals	(12)	-	(61)	-	(73)
Exchange differences on translation to the presentation currency	-	1	1	-	2
At 31 December 2011	36	469	692	261	1 458
Accumulated amortisation					
At 1 January 2011	27	140	197	-	364
Amortisation charge for the year	6	23	38	-	67
Disposals	(9)	-	(19)	-	(28)
Exchange differences on translation to the presentation currency	-	-	-	-	-
At 31 December 2011	24	163	216	-	403
Net book amount at 31 December 2011	12	306	476	261	1 055
Net book amount at 31 December 2010	13	328	555	104	1 000
Net book amount at 31 December 2009	21	345	595	104	1 065



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The remaining amortization periods of the intangible assets are as follows:

- Computer software 3-7 years;
- Trademarks 15 years;
- Customer list 15 years.

Acquired intangible assets and Goodwill

The intangible asset "Customer list" represents the captive individual suppliers of raw milk in the vicinity of Letichivsky Maslozavod OJSC and Zhmerinsky Maslosyrzavod LLC. In Ukraine, where about 80% of the entire milk comes from the individual producers, the existing supplier base is very important for the dairy producers and thus is valuable. The acquired asset "Customer list" was recognised in the accounts on the basis of the Purchase Price Allocation (PPA) exercise conducted within the 12-month period following the acquisitions of two plants. The asset was valued by an independent valuer Uvecon using the sales comparison method and depreciated replacement cost (DRC) methods (for tangible assets) and income and cost advantage methods (intangible assets). As at December 31, 2011 the revaluation of the assets has been conducted and the loss on revaluation of GBP 41,600 has been recognised in the consolidated financial statements.

The Group regularly monitors the carrying value of its acquired intangible assets, goodwill and events or changes in circumstances that indicate there may be an impairment. The result of the review, undertaken at 31 December 2011, was that no impairment needs to be recognised and the carrying value of the acquired goodwill is considered appropriate.

After having analyzed all key factors the Group's Management decided that as of December 31, 2011 the Goodwill of Letichiv Dairy Plant did not lose any of its value. Besides, this asset has unlimited useful life duration and has been tested as part of Group's single cash generating unit.

The Group's production plans are based on the established practice of production and distribution of dairy products in the raw material zone of Letichiv Dairy Plant and it foresees the use of this asset for an unlimited period of time.

Maintenance of Goodwill does not require considerable costs and the Group does not plan such inputs in the future.

Taking into consideration all the factors mentioned above, the Group's Management does not see any reasons for Goodwill impairment as of December 31, 2011 and considers that the amount of GBP 0.26 million is its fair value.



16. DEFERRED TAX ASSETS AND LIABILITIES

For the year ended 31 December 2011, deferred tax assets and liabilities were presented as follows:

	As at 31 December 2011 £ '000		As at 31 December 2010 £ '000	
Deferred tax asset at the beginning of the year	(248)	-	(63)	-
Deferred tax liability at the beginning of the year	-	1 434	-	459
Deferred tax asset recognised in income statement during the year	190	-	(184)	-
Deferred tax liability recognised in income statement during the year	-	(196)	-	(49)
Increase in deferred tax due to increase in property, plant and equipment revaluation reserve	-	-	-	1 028
Reduction in deferred tax due to decrease in property, plant and equipment revaluation reserve because of amortisation	-	(124)	-	(19)
Effect from tax rate change (2010: 25%, 2011: 23%, 2012: 21%)	-	(206)	-	-
Exclusion from Group	-	(2)	-	-
Exchange differences on translation to the presentation currency	8	(25)	(1)	15
Deferred tax asset at the end of the year	(50)	-	(248)	-
Deferred tax liability at the end of the year	-	881	-	1 434

17. INVENTORIES

As at the reporting dates inventories were presented as follows:

	As at 31 December 2011 £ '000	As at 31 December 2010 £ '000
Raw materials	909	850
Work in progress	662	507
Finished goods	2 338	1 954
Other inventories	725	674
	4 634	3 985



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18. TRADE AND OTHER RECEIVABLES

As at the reporting dates receivables were presented as follows:

	As at 31 December 2011 £ '000	As at 31 December 2010 £ '000
Trade receivables	5 239	4 587
Other receivables	901	585
Prepayments	766	432
	6 906	5 605

The Group's management believes that the carrying value for trade and other receivables is a reasonable approximation of their fair value. The amount of overdue but unimpaired accounts receivable is insignificant and is not disclosed in this note.

There is concentration of credit risk due to a high share (around 27%) of total trade receivables being with three clients.

Maturity of trade receivables as at 31 December 2011 and 31 December 2010 is presented as follows:

	As at 31 December 2011 £ '000	As at 31 December 2010 £ '000
In less than 1 year	6 906	5 605
	6 906	5 605

As at 31 December 2011, there were no trade and other receivables past due not impaired (2010: Nil)

19. CURRENT TAXES

As at the reporting dates current taxes were presented as follows:

	As at 31 December 2011 £ '000	As at 31 December 2010 £ '000
VAT receivable	388	1 091
Prepaid profit tax	-	-
Other prepaid taxes	16	3
	404	1 094

20. OTHER FINANCIAL ASSETS

	As at 31 December 2011 £ '000	As at 31 December 2010 £ '000
Loans and receivables		
Loans issued to related parties	2	141
Loans issued to third parties	129	-
Loans issued to employees	46	79
	177	220

Loans issued are denominated in Hryvnia, are short term in nature, and are interest free.



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21. CASH AND CASH EQUIVALENTS (EXCLUDING BANK OVERDRAFTS)

As at the reporting dates cash and cash equivalents were presented as follows:

	As at 31 December 2011 £ '000	As at 31 December 2010 £ '000
Cash - in UAH	19	10
Bank - in UAH	315	306
Cash - in other currencies	-	2
Bank - in other currencies	178	358
	512	676

As at 31 December 2011 bank deposits were presented as follows:

Bank	Currency of deposit	Interest rate	Deposit opening date	Deposit termination date	As at 31 December 2011 £ '000
Raiffeisen Bank Aval OJSC	UAH	12%-15%	16.06.2010	17.06.2011	-
Raiffeisen Bank Aval OJSC	UAH	12%-15%	06.05.2010	10.05.2011	-
OTP Bank	EUR	1,5%	15.08.2011	no termination date	0,5
					0,5



22. SHARE CAPITAL

As at the reporting dates share capital was presented as follows:

	As at		Authorised	
	31 December 2011	31 December 2011	31 December 2011	31 December 2010
	Number '000	£ '000	Number '000	£ '000
Ordinary shares of 10p each	60 000	6 000	60 000	6 000

	Issued and fully paid at beginning and end of the year			
	As at	As at	As at	As at
	31 December 2011	31 December 2011	31 December 2010	31 December 2010
	Number '000	£ '000	Number '000	£ '000
Ordinary shares of 10p each				
At beginning of the year	40 818	4 082	41 068	4 107
Own shares acquired	-	-	(250)	(25)
At end of the year (excluding shares held as treasury shares)	40 818	4 082	40 818	4 082

	Held as treasury shares			
	As at	As at	As at	As at
	31 December 2011	31 December 2011	31 December 2010	31 December 2010
	Number '000	£ '000	Number '000	£ '000
Ordinary shares of 10p each				
At beginning of the year	2 000	200	1 750	175
Own shares acquired	-	-	250	25
At end of the year	2 000	200	2 000	200

As at 31 December 2011 the Company held a total of 2 000 250 Ordinary Shares as treasury shares and the total number of Ordinary Shares in issue (excluding shares held as treasury shares) was 40 817 599.1



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23. OTHER RESERVES

	Share premium	Merger reserve	Translation reserve	Revaluation reserve	Total other reserves
	£ '000	£ '000	£ '000	£ '000	£ '000
At 1 January 2010	4 588	(1 427)	(5 777)	1 333	(1 283)
Own shares acquisition	(33)	-	-	-	(33)
Gain on revaluation of fixed assets	-	-	-	3 084	3 084
Depreciation on revaluation of property, plant and equipment	-	-	-	(50)	(50)
Reduction of options reserve	-	-	-	(1)	(1)
Exchange differences on translation to the presentation currency	-	-	351	-	351
At 31 December 2010	4 555	(1 427)	(5 426)	4 366	2 068
Depreciation on revaluation of property, plant and equipment	-	-	-	(302)	(302)
Impact of the change in tax rate	-	-	-	206	206
Reduction of revaluation reserve	-	-	-	(136)	(136)
Exclusion from Group	-	1 060	-	-	1 060
Exchange differences on translation to the presentation currency	-	-	(28)	-	(28)
At 31 December 2011	4 555	(367)	(5 454)	4 134	2 868

The following describes the nature and purpose of each reserve within owners' equity.

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value.
Revaluation	Gains arising on the revaluation of the Group's property. The balance on this reserve is wholly undistributable.
Merger	Losses arising on the application of the pooling of interests method of consolidation used to account for the merger of Ukrproduct Group Ltd and its subsidiaries.
Share option	Amount arising from share based payments (issue of share options).
Retained earnings	Cumulative net gains and losses recognised in the consolidated income statement.
Translation	Amount of all foreign exchange differences arising from the translation of the financial information of foreign subsidiaries.



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24. NON-CONTROLLING INTERESTS

	As at 31 December 2011 £ '000	As at 31 December 2010 £ '000
At 1 January	20	30
Net profit for the period	10	(10)
Decrease of Non-controlling interests	(30)	-
At 31 December	-	20



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25. BANK LOANS AND OVERDRAFTS

As at 31, December 2011, the Group had received EUR 4.6 mln of an EUR 11 mln credit line facility from the European Bank for Reconstruction and Development (EBRD) for the financing of a project to increase energy efficiency and productivity of the Starokonstantinovskiy Molochniy Zavod SC plant.

Bank	Currency	Type	Opening date	Termination date	Interest rate	Limit	As at 31	As at 31	
							December 2011	December 2010	
							£ '000	£ '000	£ '000
EBRD	EUR	Loan	31.03.2011	10.09.2018	≈ 8,5%	9 196	3 844	-	
OTP Bank	UAH, USD	Credit line	30.05.2011	26.06.2014	14,7%	3 247	3 148	2 842	
OTP Bank	UAH	Loan	14.10.2011	01.10.2012	18,5%	7	7	-	
Bank Forum PJSC	UAH	Credit line	20.10.2011	19.10.2012	21,8%	406	106	-	
UkrSibbank PJSC	UAH	Overdraft	28.04.2011	30.03.2012	17%	406	253	96	
							7 358	2 938	

The Group also had an additional overdraft facility of UAH 1,900,000 (GBP 154,597) with Raiffeisen Bank Aval OJSC which was totally repaid back in August 2011.

The average interest rate as at 31 December 2011 was 16.5% (2010: 19.2%).

Maturity of financial liabilities

	year ended 31 December 2011	year ended 31 December 2010
	£ '000	£ '000
On demand	253	96
In less than 1 year*	3 261	2 842
In more than 1 year*	3 844	
	7 358	2 938

*extendable according to 3-year agreement with bank.



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Interest rate profile of financial liabilities

	Floating rate	Fixed rate	As at 31 December 2011	As at 31 December 2010
	£ '000	£ '000	£ '000	£ '000
On demand	253	-	253	96
Expiry within 1 year	-	3 261	3 261	2 842
Expiry in more than 1 years	3 844	-	3 846	
	4 097	3 261	7 360	2 938

The currency profile of the Group's financial liabilities is as follows:

	Floating rate liabilities	Fixed rate liabilities	Total as at 31 December 2011	Total as at 31 December 2010
	£ '000	£ '000	£ '000	£ '000
UAH	253	3 261	3 514	2 775
USD	-	-	-	164
EUR	3 844	-	3 844	
	4 097	3 261	7 358	2 938

The book value and fair value of financial liabilities are as follows:

	Book value as at 31 December 2011	Fair value as at 31 December 2011	Book value as at 31 December 2010	Fair value as at 31 December 2010
	£ '000	£ '000	£ '000	£ '000
Bank loans	7 105	7 105	2 842	2 842
Bank overdrafts	253	253	96	96
	7 358	7 358	2 938	2 938



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26. TRADE AND OTHER PAYABLES

	As at 31 December 2011	As at 31 December 2010
	£ '000	£ '000
Trade payables	2 235	1 052
Other payables	328	204
Prepayments received	170	204
Accruals	282	255
Provisions	150	-
	3 165	1 715

The Group's management believes that the carrying value for trade and other payables is a reasonable approximation of their fair value.

27. EARNINGS PER SHARE

Basic earnings per share has been calculated by dividing net profit attributable to the ordinary shareholders by the weighted average number of shares in issue.

	year ended 31 December 2011	year ended 31 December 2010
	£ '000	£ '000
Net profit attributable to ordinary shareholders	410	1 104
Weighted number of ordinary shares in issue	40 817 599	41 052 531
Basic earnings per share, pence	1,00	2,69
Diluted average number of shares	40 817 599	41 052 531
Diluted earnings per share, pence	1,00	2,69



28. DIVIDENDS

Due to the business circumstances dictating the prudence and cash conservation, the Board has decided not to pay a final dividend in respect of the year ended 31 December 2011.

	year ended 31 December 2011	year ended 31 December 2010
	£ '000	£ '000
Final dividend for 2010 of 0.50 pence (2009 - 0.40 pence) per ordinary share proposed and paid during the year relating to the previous year's results	204	82
	204	82

29. SHARE-BASED PAYMENTS

The Company operates an equity-settled share based remuneration scheme for employees.

	2011 Weighted average exercise price	2011 Number	2010 Weighted average exercise price	2010 Number
	£		£	
Outstanding at beginning of the year	0,128	130 290	0,128	130 290
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Lapsed during the year	-	-	-	-
Outstanding at the end of the year	0,128	130 290	0,128	130 290
Exercisable at the end of the year	0,128	130 290	0,128	130 290



During the period under review the Company did not grant options to any parties.

All options granted to the Directors are exercisable over a period of four years.

Taking into account the fair value of options granted estimated at the grant date no remuneration charge was recognised in statement of comprehensive income in 2011.

The fair value of options granted in 2009 was calculated based on the following data

Item	2009
Option pricing model used	Adjusted Black-Scholes
Weighted average share price at the grant date	0,1275
Exercise price	0,1280
Weighted-average contractual life, years	4,0
Expected volatility	25%
Expected dividend yield	5%
Expected dividend growth rate	0%
Weighted-average risk-free interest rate	1,92%



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30. CURRENCY ANALYSIS

Currency analysis for the year ended 31 December 2011 is set out below:

	UAH	USD	RUR	GBP	EUR	Total
Assets						
Trade and other receivables	5 726	1 154	-	-	26	6 906
Current taxes	404	-	-	-	-	404
Other financial assets	177	-	-	-	-	177
Cash and cash equivalents	447	60	-	5	-	512
Total assets	6 754	1 214	-	5	26	7 999
Liabilities						
Bank borrowings	3 514	-	-	-	3 844	7 358
Trade and other payable	2 999	164	-	-	2	3 165
Current income tax liabilities	108	-	-	-	-	108
Other taxes payable	251	-	-	-	-	251
Total Liabilities	6 872	164	-	-	3 846	10 882



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Currency analysis for the year ended 31 December 2010 is set out below:

	UAH	USD	RUR	GBP	EUR	Total
Assets						
Trade and other receivables	4 986	598	-	-	21	5 605
Current taxes	1 094	-	-	-	-	1 094
Other financial assets	220	-	-	-	-	220
Cash and cash equivalents	315	318	-	43	-	676
Total assets	6 615	916	-	43	21	7 595
Liabilities						
Bank loans and overdrafts	2 938	-	-	-	-	2 938
Trade and other payable	1 498	64	97	-	56	1 715
Taxes payable	38	-	-	-	-	38
Current income tax liabilities	68	-	-	-	-	68
Total Liabilities	4 542	64	97	-	56	4 759



10 % strengthening of Hryvnia rate against the following currencies as at 31 December 2011 and 2010, would increase (decrease) the amount of profits (or losses) for the period by the amounts mentioned below. This analysis was conducted based on the assumption that all other variables, in particular, interest rates, remained unchanged. The change of GBP exchange rate does not have impact on the result as all the balances in GBP are attributable to the Group's companies where GBP is a functional currency.

	Increase/ decrease in rate	Effect on income before tax in 2011	Effect on income before tax in 2010
		£ '000	£ '000
USD	10%	105	85
EUR	10%	(382)	(4)
RUR	10%	-	(10)
USD	-10%	(105)	(85)
EUR	-10%	382	4
RUR	-10%	-	10

31. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions and balances between the Group companies and other related parties are set out below. Remuneration of key management personnel is disclosed in note 12.

Sales of goods and services to related parties and purchases from related parties are summarised below. All sales and purchases were with related parties under common control of the ultimate beneficiaries of the Company.

	year ended 31 December 2011 £ '000	year ended 31 December 2010 £ '000
Sales	326	504
Other operational incomes	1 719	33
Purchase	(1 381)	(678)



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Balances due from/(to) related parties at each period end are shown below.

	As at 31 December 2011 £ '000	As at 31 December 2010 £ '000
Receivables and prepayments	48	252
Loans issued	2	141
Trade and other payable	(424)	(205)

In 2011, the Group's commercial relationships with the related parties comprised sales, purchases, provision, issue and repayment of loans. The terms and conditions for the contracts with the related parties were similar to the terms and conditions applied in dealings with unrelated parties. There were no guarantees given to or provided by from the Group to related parties and vice versa.

The ultimate controlling owners and beneficiaries of the related parties were Messrs Alexander Slipchuk and Sergey Evlanchik.

32. COMMITMENTS AND CONTINGENCIES

(a) Economic environment

The Group carries out most of its operations in Ukraine. Laws and other regulatory acts affecting the activities of Ukrainian enterprises may be subject to changes and amendments within a short period of time. As a result, assets and operating activity of the Group may be exposed to the risk in case if any unfavorable changes take place in political and economic environment.

(b) Taxation

As a result of the unstable economic environment in Ukraine the Ukrainian tax authorities pay increasing attention to business communities. In this regard, local and national tax legislation are constantly changing. Provisions of various legislative and regulatory legal acts are not always clearly-worded, and their interpretations depend on opinion of tax authority officers and the Ministry of Finance. It is a common practice when disagreements between local, regional and republican taxation authorities take place. A system of fines and penalties for claimed or revealed violations exists in corresponding regulatory legal acts, laws and decisions. Penalties include confiscation of amount in dispute (in case of law violation) and as well as fees. These facts create tax risks, that is, that the Group may therefore be exposed to the risk of additional tax liabilities, fines and penalties. These risks far exceed risks in the countries with advanced tax systems.

(c) Retirement and other liabilities

Employees of the Group receive pension benefits from the Pension Fund, a Ukrainian Government organization in accordance with the applicable laws and regulations of Ukraine. The Group is required to contribute a specified percentage of the payroll to the Pension Fund to finance the benefits. The only obligation of the Group with respect to this pension plan is to make the specified contributions from salaries. As at 31 December 2011 and 2010 the Group's had no liabilities for supplementary pensions, health care, insurance benefits or retirement indemnities to its current or former employees.



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The amount of uncancellable lease commitments is insignificant. As of December 31, 2011 the Group does not possess any finance lease and hire purchase commitments, capital commitments and guarantees.

33. ACQUISITION OF SUBSIDIARY

On 29 December 2011 the Group signed an agreement on strategic acquisition of 100% of share capital of the branded kvass business "Zhyvyi Kvass" LLC that was ratified by the Board on March 21, 2012. The consideration and the fair value of the net assets of "Zhyvyi Kvass" LLC are shown below:

Consideration	Note	As at 31 December 2011
		£ '000
Cash		5
Total consideration transferred		5
Recognised amounts of identifiable assets acquired and liabilities assumed		
cash and cash equivalents	14	2 417
Trade and other receivables		401
Inventories		79
Cash and cash equivalents		2
Other non-current assets		1
Trade and other payables		(3 052)
Total identifiable net assets		(152)
Goodwill	15	157
Total		5

The goodwill arising from the acquisition of "Zhyvyi Kvass" LLC is attributable to the value of trade mark "Arsenievsky".

34. SUBSEQUENT EVENTS

On 20 February 2012 the Group signed an agreement approved by the Board on March 21, 2012 for the purchase of the trade mark "Arsenievsky" for the amount of GBP 290 192 to support the acquisition of "Zhyvyi Kvass" LCC. The "Arsenievsky" trade mark is recognized in the Ukrainian kvass market and is in the process of being registered for patent protection.



UKRPRODUCT GROUP



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UKRPRODUCT GROUP



SHAREHOLDER INFORMATION

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Financial Calendar

Date	Event
31 December 2011	Financial year end
25 April 2012	Announcement of full year 2011 results
7 June 2012	Annual General Meeting

Analysis of shareholding – at 31 December 2011

Size of shareholdings	Number of holders	% of total	Total holdings, shares	% of total
Up to 5,000 shares	62	32.6	87,461	0.2
5,001 to 50,000 shares	59	31.1	564,781	1.4
50,001 to 200,000 shares	38	20.0	2,831,673	6.9
Over 200,000 shares	31	16.3	37,333,684	91.5
Total	190	100%	40,817,599	100%

The ultimate controlling parties of Ukrproduct Group Ltd are Messrs Sergey Evlanchik and Alexander Slipchuk who collectively controlled, as of 31 December 2010, 67.52% of the common shares of the Company.

Share price (pence) – year to 31 December 2011

At end of year: 12.38 p Lowest: 12.0 p Highest: 29.0 p

Administrative enquiries

All enquiries relating to individual shareholder matters should be made to the registrar at: Capita Registrars Shareholders Services Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. The registrar will assist with enquiries regarding any change of circumstances (e.g. name, address, bank account details, bereavement, lost certificates, dividend payment and transfer of shares). All correspondence should be clearly marked “Ukrproduct Group Ltd” and quote the full name and address of the registered holder of the shares. Shareholder information, together with a range of online services for Ukrproduct Group Ltd shareholders is also available at the registrar’s website

www.capitaregistrars.com.

Investor Relations

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